



LIFE INSURANCE RETIREMENT SUPPLEMENT

Diversify Your Retirement Plan with Life Insurance

FOR USE WITH THE GENERAL PUBLIC



Ohio National
Financial Services®

The potter's wheel

Centering the clay on the potter's wheel is the first step in throwing pottery and is the one that determines the success of your finished piece.

The reason is simple! If the clay is not in the center of the wheel, the centrifugal force will make it lean to one side as the wheel turns. You will not be able to mold the clay properly between your hands unless it is standing straight up on the wheel.



Do you feel like your retirement plan is “off-center?”

Is it time to scoop it up and “throw” it back on the wheel, as many potters often do?

Tax uncertainties may require you to reshape your plan

Tax rate changes can result in volatility of the after-tax income you have available during your retirement years.

Will tax rates go up? Down? Stay the same? How you answer that question may impact how you choose to center your retirement plan.

If you believe tax rates are going to increase in the future, and you currently hold most of your retirement portfolio in tax-deferred accounts, you may want to consider reshaping your retirement portfolio to include investments that are taxed differently at tax time – when you retire.



Stop and think for a moment

Have you spent a lot of time focusing on the front end of retirement – the accumulation stage? You may have focused all your attention on investment options when deciding how and where to save for retirement. You may have diversified your investment portfolio to help protect from some market risk. You know the phrase. “Don’t put all your eggs in one basket.”

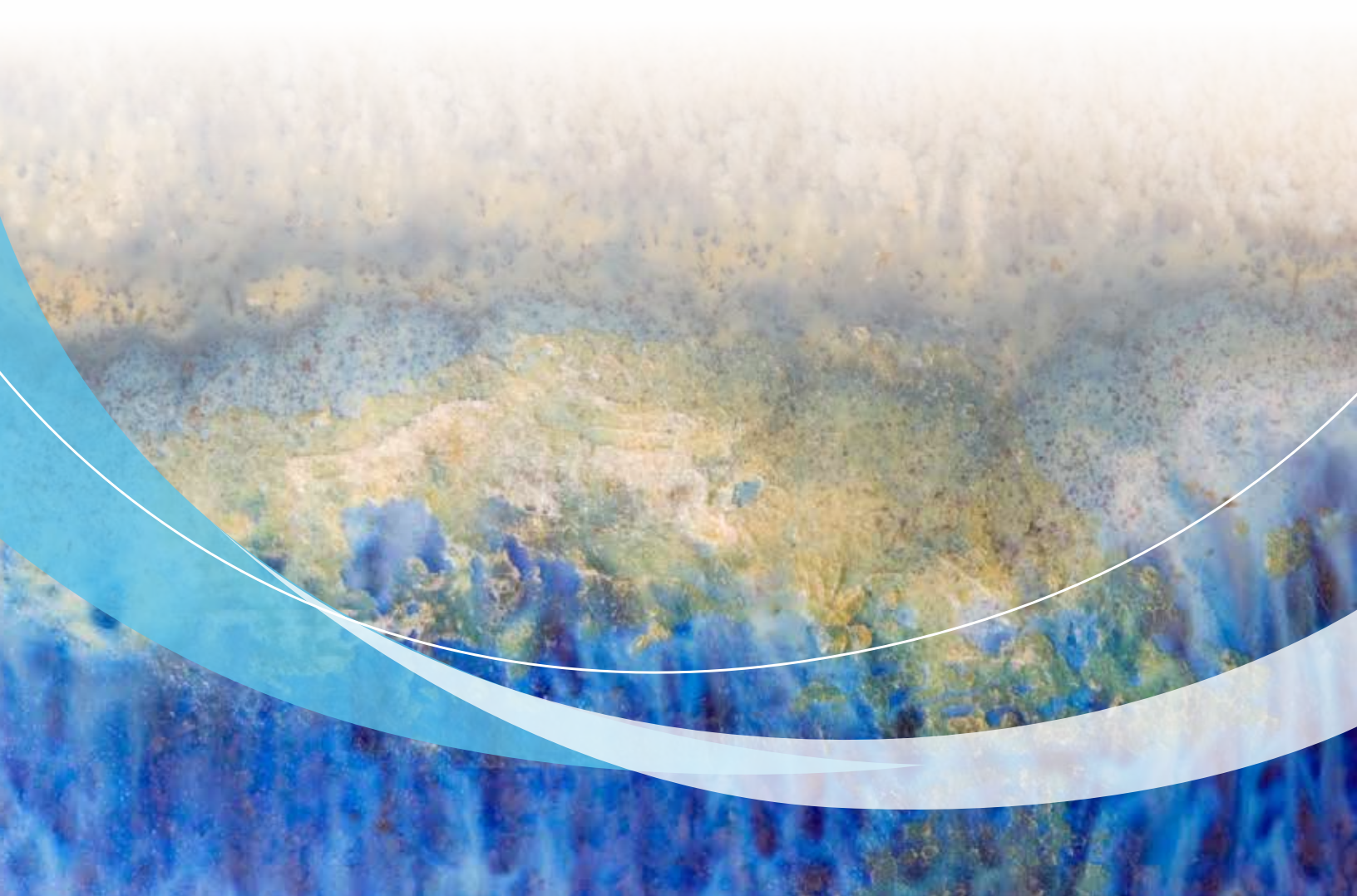
It may be prudent, however, to factor in tax implications of those savings on the back end of retirement – the distribution stage.

- Will all of your retirement income be taxed during retirement?
- Will it all be taxed at ordinary income rates?
- Do you have assets that will be taxed at capital gains rates?
- Do you have access to any tax-free income?

If you think your tax burden will be higher in the future, all of these questions are important to address now if you want to keep your retirement plan centered.



How tax diversified is your retirement portfolio?



Income tax diversification

Hedging today against the uncertainties of tomorrow

Tax diversification can simply be defined as “keeping assets in a variety of accounts that are treated differently at tax time – when you retire.”

You should take the time now to consider the tax consequences of your retirement saving vehicles. By hedging today against uncertainties in changes to the federal tax code, you may have more control over your potential income tax liabilities later.

Tax diversification provides you the flexibility to choose which assets you draw from during retirement, and hence whether or not those withdrawals are taxable.

The 1099 analogy

Think in terms of the 1099. You are probably familiar with the IRS Form 1099. The 1099 is an information return that is used to report various types of taxable income you have received throughout the year. The letters behind the 1099 are indicative of the type of income being reported to both you as the account owner as well as to the IRS.

1099s received by retirees

Form 1099-B reports the sale of stocks, bonds, mutual funds and other securities.

Form 1099-DIV reports dividends, qualified dividends, and capital gains distributions.

Form 1099-INT reports interest earned.

Form 1099-MISC reports various types of income including rents, royalties, and non-employee compensation.

Form 1099-R reports distributions from a retirement plan such as an IRA, 401(k) or pension.

Are your retirement accounts tax diversified?

Knowing when assets will be taxed helps you plan how to diversify

If you look at tax diversification in terms of the 1099, you could generally classify retirement savings by the generation of the 1099, and map it to the tax return, if applicable, during both the accumulation and retirement years.

In other words, which retirement savings generate:

- a 1099 **now**,
- a 1099 **later**, or, potentially,
- a 1099 **never**.

Use the chart on the next page to help determine the current tax diversification of your retirement income assets.



1099 Worksheet

Check the accounts you'll be using in retirement, then list them below according to the type of 1099 they would generate.

Retirement savings opportunities¹

- | | | |
|---|---|--|
| ☐ Money Market Accounts, CDs | ☐ Traditional IRA | ☐ SIMPLE IRA |
| ☐ Savings Accounts | ☐ Roth IRA | ☐ SEP IRA |
| ☐ 401(k) Plan | ☐ Roth 401(k) | ☐ Stocks |
| ☐ Deferred Compensation Plan | ☐ Rental Property Income | ☐ Bonds |
| ☐ Pension Plan | ☐ Royalty Income | ☐ Incentive Stock Options |
| ☐ Tax-sheltered Annuity | ☐ Non-qualified Deferred Annuity | ☐ Municipal Bonds |

1099 now	1099 later	1099 never ²

¹ This worksheet is not all inclusive of all retirement assets.

² Under current IRS guidelines, and assumes appropriate guidelines are followed to receive income tax-free distributions.

Please note some distributions from this category may still generate a 1099, but with coding to indicate the distribution is nontaxable.

Cash value life insurance

The non-traditional solution

The primary purpose of life insurance is death benefit protection, so you may have traditionally viewed life insurance as just a necessary expense. However, cash value life insurance has the potential to offer far more.

In addition to protecting your family, cash value life insurance, when purchased in conjunction with your other retirement investments, may provide an ideal way to tax-diversify your retirement savings.

- Premiums are paid with after-tax dollars.
- Cash value accumulates on a tax-deferred basis.
- You can access policy values – before or during retirement – generally on a **tax-free basis** through withdrawals and loans. (If the life insurance policy lapses, is surrendered, or classified as a modified endowment contract, a taxable event may occur.)
- Funding is **not limited based on income**.
- **No 10 percent penalty tax** on cash value distributions prior to age 59½ (if the policy is not classified as a modified endowment contract).
- You decide when, or if, you want to take distributions – **no required minimum distribution rules**.
- You may be afforded the **potential for creditor protection** (varies by state).

Life insurance offers more than just death benefit

If you live ... you can have the opportunity to supplement your retirement income tax free.

Should you become disabled ... and if you have purchased an optional Disability Waiver of Premium Rider, your premiums may be waived if you qualify under the terms of the policy.

When you die ... your beneficiary receives the policy death benefit (less any unpaid loans and loan interest) income tax free.



Tax diversification with life insurance

Kick start your retirement plan

Assume you are age 64, single and plan to withdraw \$100,000 of income from your taxable retirement plan. Without tax diversification, your expected after-tax retirement income could be adversely affected if tax rates increase.

A possible solution is to purchase a cash value life insurance policy during your working years. At retirement, the cash value of the policy would be available for tax-free withdrawals and loans to supplement retirement income, assuming your policy is not a modified endowment contract.

At retirement assume your policy has cash value of \$750,000. By tax diversifying your portfolio, you may choose to take \$50,000 from your taxable retirement plan, and borrow the remaining \$50,000 tax free from your cash value life insurance policy (through a policy loan), and possibly reduce your overall tax liability. By doing so, you can possibly even reduce tax liability on other benefits such as Social Security, depending on your tax situation.

1	Wages, salaries, tips, etc. Attach Form(s) W-2		
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	
4a	IRA distributions	4a	
4c	Pensions and annuities	4c	
5a	Social security benefits	5a	
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here		☐
7a	Other income from Schedule 1, line 9		
b	Add lines 1, 2b, 3b, 4b, 5b, 6, and 7a. This is your total income		
8a	Adjustments to income from Schedule 1, line 22		
b	Subtract line 8a from line 7b. This is your adjusted gross income		
9	Standard deduction or itemized deductions (from Schedule A)	9	\$12,200
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10	
11a	Add lines 9 and 10		
b	Taxable income. Subtract line 11a from line 8b. If zero or less, enter -0-		
12a	Tax (see inst.) Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐	12a	
b	Add Schedule 2, line 3, and line 12a and enter the total		

Retirement income after federal taxes

Without cash value life insurance

You withdraw \$100,000 from your retirement plan.

1	
2b	
3b	
4b	
4d	\$100,000
5b	
6	
7a	
7b	\$100,000
8a	
8b	\$100,000
11a	\$12,200
11b	\$87,800
12b	\$15,253

\$84,747

With cash value life insurance

You withdraw \$50,000 from your retirement plan and \$50,000 from your cash value life insurance policy.

1	
2b	
3b	
4b	
4d	\$50,000
5b	
6	
7a	
7b	\$50,000
8a	
8b	\$50,000
11a	\$12,200
11b	\$37,800
12b	\$4,345

\$95,655

Hypothetical example assumes assumes 2019 tax rates.

Understanding the treatment of distributions

Cash value life insurance may offer tax-free distributions, but the policy must be properly funded and certain criteria must be met.

Cash value accumulation may not be guaranteed depending on the type of product selected. Investments in variable life insurance products are subject to market risk, including loss of principal. Withdrawals and loans will reduce cash value and death benefit.

Modified Endowment Contract (MEC)

Tax-free distributions assume that the life insurance policy is properly funded and is not a Modified Endowment Contract (MEC). If a policy is, or becomes, a Modified Endowment Contract (MEC), distributions may become taxable and a 10 percent penalty assessed if taken prior to age 59½.

Different rules apply in the first 15 policy years, when distributions accompanied by benefit reductions may be taxable in some cases. Non-MEC loans are generally not subject to tax but may be taxable if the policy lapses, is surrendered, exchanged, or otherwise terminated.

Always confirm the status of a particular loan or withdrawal with a qualified tax advisor.

[Get started today!](#)

For more on how life insurance can supplement your retirement income, talk to your financial professional today!



Life changes. We'll be there.®

Our mission is to make a difference in your life by helping you achieve financial security and independence today – and for generations to come.

This form provides general information that should not be construed as specific legal or tax advice nor the law of any particular state. Please seek the advice of a qualified legal or tax professional for your specific situation.

Tax-free withdrawals and loans assume that the life insurance policy is properly funded and is not a modified endowment contract. Withdrawals are generally treated first as tax-free recovery of basis and then as taxable income, assuming the policy is not a modified endowment contract. However, different rules apply in the first fifteen policy years, when distributions accompanied by benefit reductions may be taxable prior to basis recovery. Loans from policies that are not classified as modified endowment contracts are generally not subject to tax but may be taxable if the policy lapses, is surrendered, exchanged or otherwise terminated. In the case of a modified endowment contract, loans and withdrawals are taxable to the extent of policy gain and a 10% penalty may apply if taken prior to age 59½. Always confirm the status of a particular loan or withdrawal with a qualified tax advisor. Cash value accumulation may not be guaranteed depending on the type of product selected. Income tax-free death benefits, withdrawals and loans apply to Federal taxes only. State income taxes may apply. Loans and withdrawals will reduce the death benefit.

Products issued by The Ohio National Life Insurance Company and Ohio National Life Assurance Corporation. Product, product features and rider availability vary by state. Guarantees are based on the claims-paying ability of the company. Issuers not licensed to do business in New York.

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