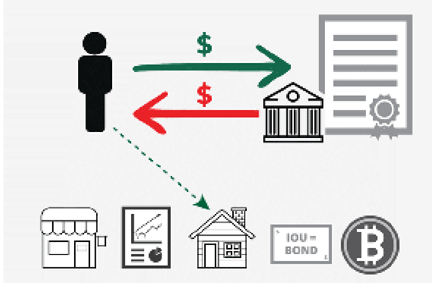
Whole Life As "Your Income Bridge" In a Dynamic Retirement Glidepath

By BankingTruths.com

This report discusses how Whole Life (and other Insurance products) can act as your own private bank now and a portfolio hedge during retirement.

First, let's dispel the most common trash-talk about Whole Life that keeps you from exploring its true utility:



False Claims & Half-Truths About Whole Life:

Half-Truth: "Whole Life takes 12 years to break even"

Truth: Only if you minimally fund a base policy with no enhancement riders.

False Claim: "Whole Life's Fees are too high"

Truth: How high are they? Can you quantify them? We sure can! Then you can determine if the unique benefits are worth the cost.

Half-Truth: "You won't need Whole Life insurance when you retire"

Truth: Hopefully you won't, but you may want Whole Life since it can help you spend & enjoy more of your retirement investments while you're alive.

False Claim: "You're better if you just buy term & invest the difference"

Truth: Whole Life has a proven advantage over buying term and saving the difference in bank accounts or investing bond funds within a 401(k).

This report analyzes the latest research on sustaining a lifetime's worth of retirement withdrawals and how insurance products can enhance things further.

*You should **NOT** NOT be using Whole Life insurance to replace stocks in your overall portfolio. That's not Whole Life's highest and best use at all.*

Consider how Whole Life complements & diversifies your portfolio!

Not investment advice. Consult properly-licensed professionals.

Your Star Pitcher Can Only Be Mediocre Without A Relief Pitcher

I've got several great resources for you at the end of this report, one of which is from fellow industry author Tom Wall PhD [1]:

The reason your star pitcher can throw innings worth of FIREBALLS...

...is because of that solid relief pitcher waiting in the bullpen to takeover.

Otherwise, your star pitcher can only throw at 60% speed all 9 innings.

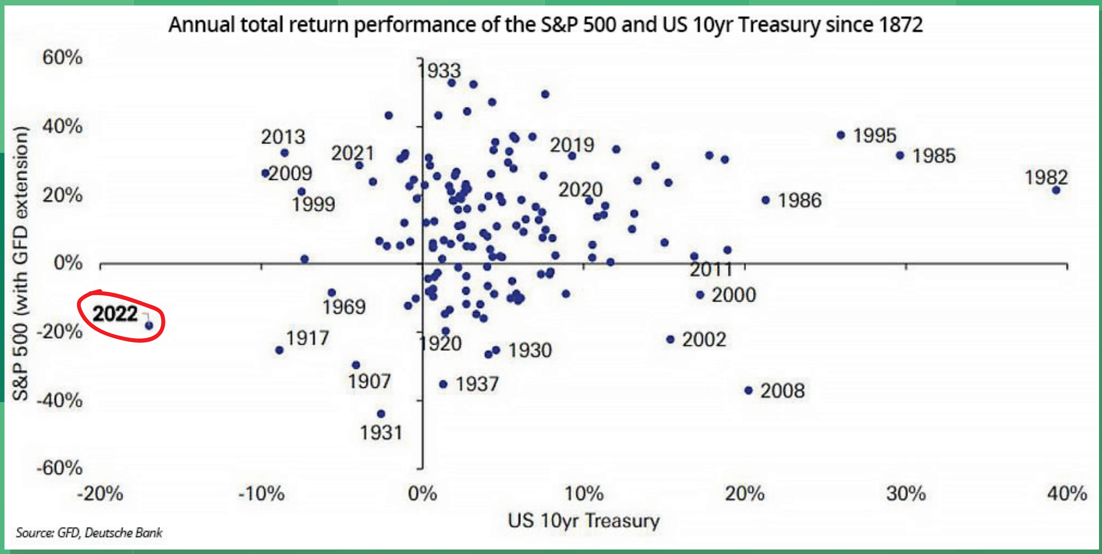
But when you have this reliable relief pitcher, your star pitcher can cut loose and do what he does best to rack up that lead in the big game.

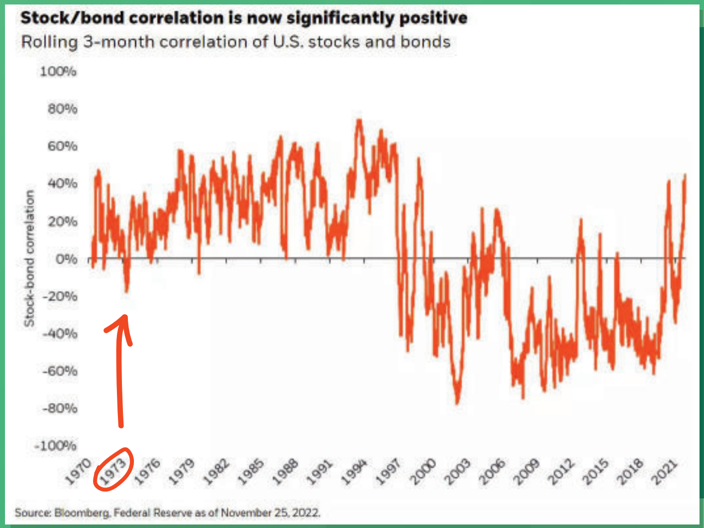
Are bond funds the "relief pitcher" in your 60/40 portfolio or Target Date fund?

Maybe your bonds even need their own relief pitcher...

...or perhaps it's time to put bonds on the injured reserve list!

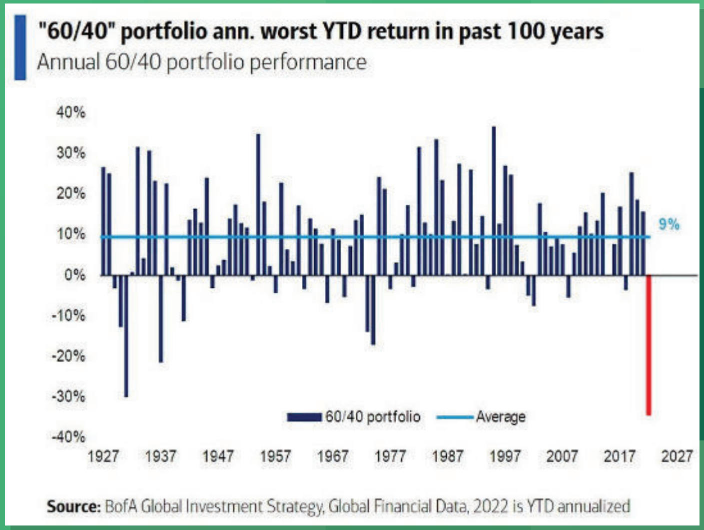
This scatterplot by Deutsche Bank shows how bonds lost about as much as stocks in 2022:





Similarly, BlackRock in their "2023 Fixed Income Outlook"[2] demonstrates how the stock/bond correlation is rising rapidly.

Notice how this same level of correlation started rising in 1973, the last time inflation reared its ugly head. Perhaps what's old will be new again.



Just look at what happened in 2022 which led to disaster for the so-called balanced 60/40 portfolio (60% stocks & 40% bonds).

Even properly diversified investors were punished!

How Whole Life Insurance Can Provide Unique Relief in Retirement

Here are 3 areas where insurance products can save the game as relief pitcher:

1. Using Whole Life as your mid-term cash reserves on the way to retirement
2. Drawing income from your insurance when stocks are down (or taxes are high)
3. Segregate 10 years of savings to grow safely in laddered insurance products.

Let me tell you why #3 is so important...Studies show the 10-15 years leading up to retirement are very vulnerable as are the 10-15 years after!

Any major losses then can irreparably cripple your portfolio causing you to:

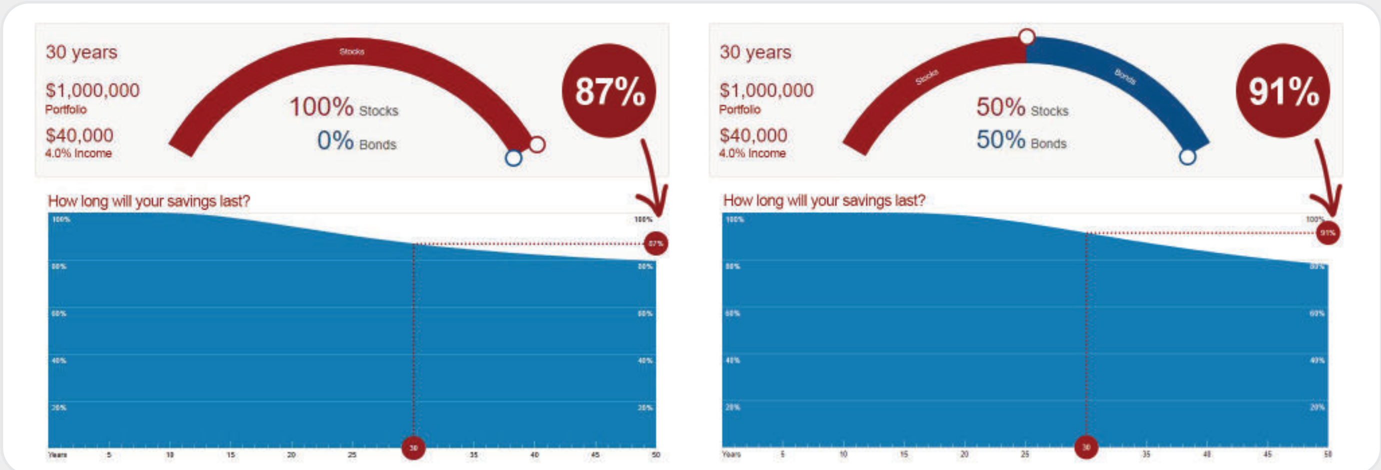
- Draw significantly less income
- Go back to work for a few more years
- Hope you run out of breath before running out of money

You CAN'T control what the stock market does...
But you CAN control your exposure to it.

Is the potential for extra gains here really worth the risk of running out of money?

Even if you were 100% allocated to stocks during this period and got gains, you'd still be playing with fire if you start taking more than 4% income adjusted for inflation.

Did you know that historically a portfolio of 100% stocks actually has less chance of sustaining 4% retirement withdrawals over 30 years than a diversified portfolio made up of 50% stocks and 50% bonds? **See for yourself...**



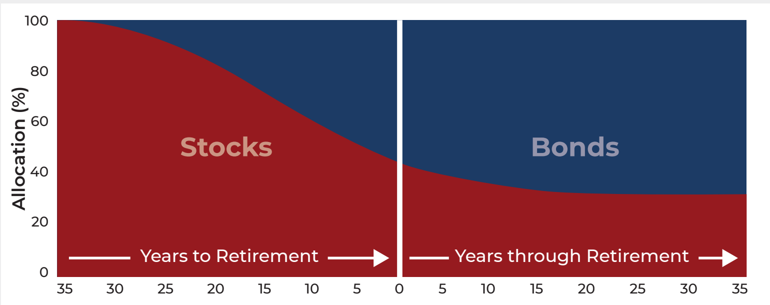
Run your own calculations with Vanguard's easy-to-use Monte Carlo Calculator.[3]

You'll find that balancing stocks with less volatile assets produces higher success rates (especially if the less volatile assets provide additional protection and utility).

Not investment advice. Consult properly-licensed professionals.

<u>Common</u> Retirement Planning Causes <u>Common</u> Results

Common retirement planning recommends continuously ramping down your exposure to stocks as you get older. Most major mutual fund companies even make “Target Date Funds” or “Lifecycle Funds” that do this for you internally:

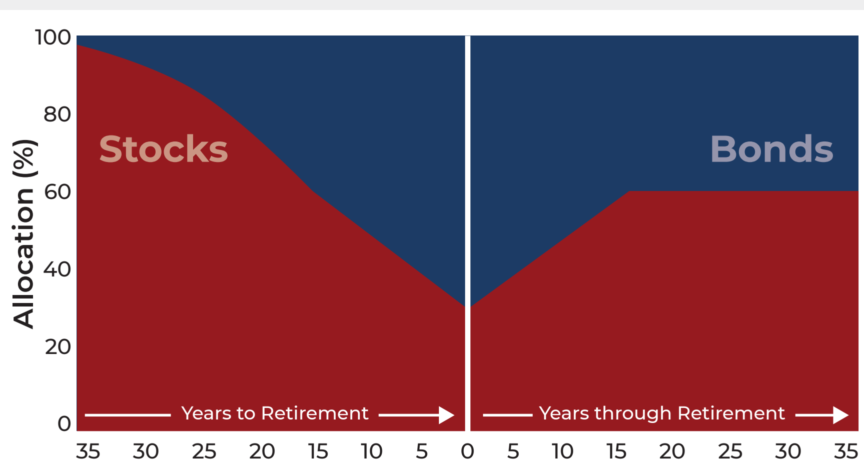


Conventional wisdom has you systematically reduce your allocation to stocks as you get older. The idea is that you can only handle the volatility while you’re young, but not as you get deeper into retirement. So you shift to less volatile bond funds.

Is this allocation glidepath optimal?
Studies say NO!

Multiple studies have found that retirees can better protect against the risk of running out of money by reducing their risk before retirement substantially. Retirees can then start incrementally ratcheting back up their allocation to stocks once they get clear of this early retirement

DANGER ZONE! [4,5]



Notice the allocation mix drops down to as low as 30% stocks & 70% bonds when retirement starts, but steadily increases the allocation back to just over 60% stocks. This dropping then rising glidepath fared better across multiple timeframes more so than any static portfolios, even the more aggressive allocations.

These studies suggest segregating a decade or more worth of income into bonds and shorter-term T-bills and spending them down rather than stocks while also dollar cost averaging back into an even heavier stock allocation. [4,5]

(Links to the studies are available at the end of this report)

Here's How To Take Portfolio Protection To The Next Level!

Many of the study's failed timeframes included the 1970s-1980's where inflation caused increased stock/bond correlation as BlackRock showed happening again.

Studies further revealed when high stock/bond correlation occurs, that retirees **would've been better off out of bonds** and in pure T-bills (like 1-year CDs). [6]

Insurance Companies Offer T-Bill Risk With Bond-Like Returns... Or Better! [7]

- ✓ Whole Life policies grow guaranteed every year even if no dividends are paid
  - Bonds fluctuate and are often sold at a loss if you need the principal
- ✓ Seasoned IUL policies have guaranteed 0% floors less fees (0.75% - 1.75%)
  - People pay that or more for managed portfolios with NO FLOOR
- ✓ Fixed Annuities are principal protected with fixed rates or index crediting options
  - Some products have an optional 1% fee for a lifetime income rider

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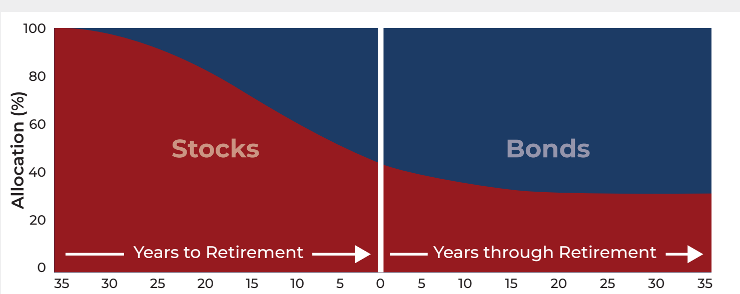
Will bond funds keeps paying you guaranteed mailbox money after they go to zero?

You're actually allowed to buy Fixed Annuity products using IRA funds. BlackRock recently started offering annuities within their institutional 401(k) plans.

Think about it... If you have some Target Date or Lifecycle funds then what utility did those bonds provide in 2022?



Here's what CNBC reported about different types of bond returns in 2022: [8]

CNBC	2022 return	Previous worst-performing 12-mo. period	Return
Intermediate-term U.S. Treasurys	−10.6%	Oct 1994	−5.6%
Total bond	−13.1%	Mar 1980	−9.2%
Long-term U.S. Treasurys	−29.3%	Mar 1980	−17.1%
Long-term investment grade	−27%	Jan 1842	−22.9%

Table: Gabriel Cortes / CNBC
Source: Analysis by Edward F. McQuarrie, professor emeritus, Santa Clara University

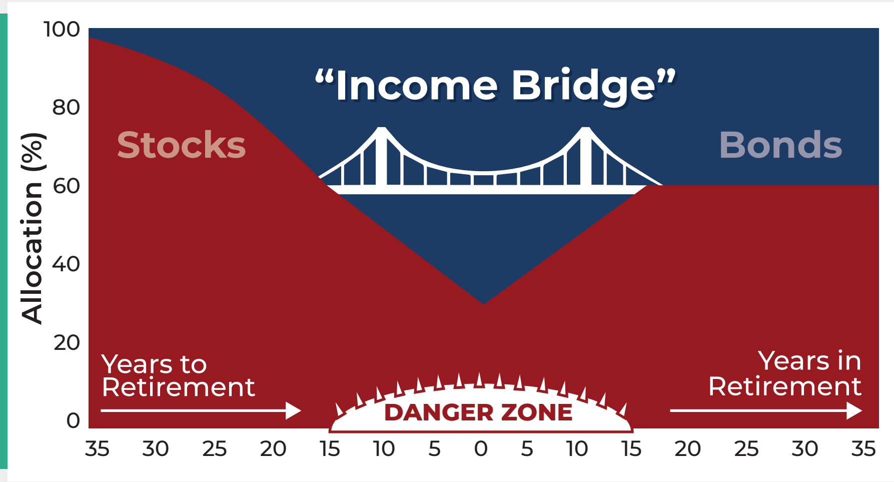
Bonds, you had one job!

Why not create genuine principal protection with layers of different insurance products since bonds failed investors in 2022 and likely face an uphill battle?

“The Income Bridge”

Just like money managers will often ladder traditional bonds to generate income across multiple time frames,

You can layer this kind of principal-protected “income bridge” to carry you through the DANGER ZONE around your retirement date.

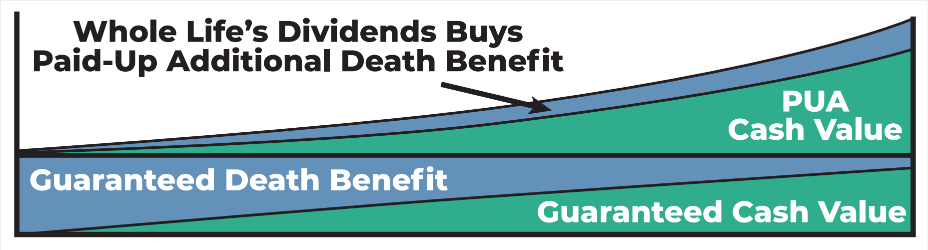


- Principal-protected annuity products can protect portions of your IRA/401(k).
- Whole Life & IUL policies can be structured for dynamic inflows and outflows.

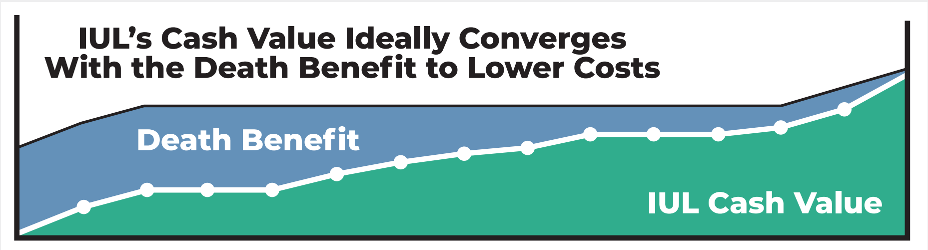
This combination of insurance products can absorb future funds to grow them safely.

Some of you may be skeptical about ratcheting down your holistic allocation to only 20%-40% stocks by your retirement date. Keep in mind these rising allocation mixes did the best across multiple timeframes with 30% being historically optimal.

Whole Life’s dividend component acts like an adjustable-rate bond only with a rising floor thanks to guaranteed growth backed by stalwart mutual companies.



Certain IUL products can provide sufficient equity exposure with miniscule downside risk from IUL’s 0% floor less ongoing fees (which can be minimized).



Enough About Risk, What About Taxes?

It's true you can only pay Whole Life or IUL premiums with after-tax dollars, but that may be a blessing in disguise.

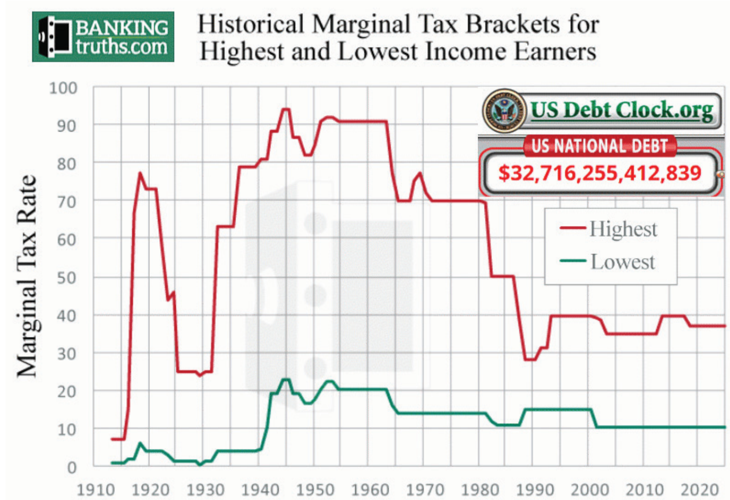
In addition to steadily increasing your allocation back into stocks as the studies suggest, you may want to systematically withdraw funds from your IRA or 401(k) throughout retirement. Too much tax-deferral can be a problem since adverse legislation may drastically change your tax rate in the future.

Did you know that at the end of 2025, taxes are set to rise for everyone?

2017/2026 Brackets*		2023 Brackets	
Married Filing Jointly		Married Filing Jointly	
Tax Rate	Income Between	Tax Rate	Income Between
10%	$0 - $19,050	10%	$0 - $22,000
15%	$19,051 - $77,400	12%	$22,001 - $89,450
25%	$77,401 - $156,150	22%	$89,451 - $190,750
28%	$156,151 - $237,950	24%	$190,751 - $364,200
33%	$237,951 - $424,950	32%	$364,201 - $462,500
35%	$424,951 - $480,050	35%	$462,501 - $693,750
39.6%	$480,051+	37%	$693,751 +

* Pre/post-TCJA brackets thresholds may differ

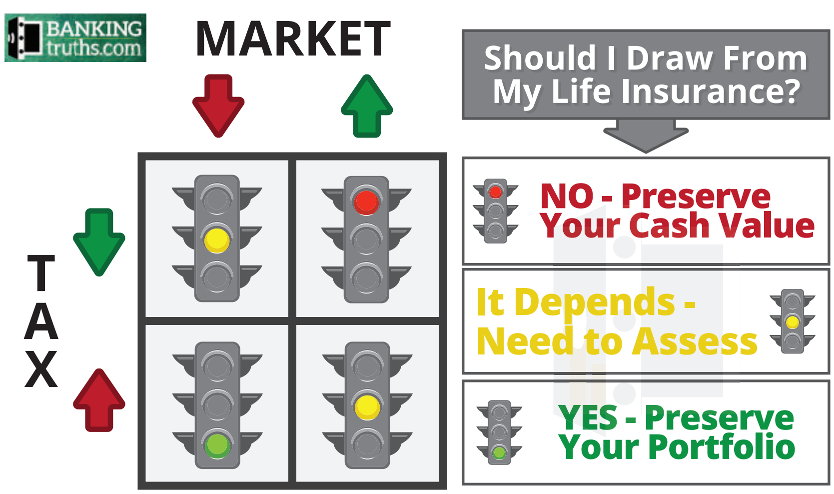
I can think of over 32 trillion reasons why tax rates will likely get even higher.



Rather than think of your Whole Life policy as another bill, think of it as starting an account that never gets taxed again while also being immune from market risk.

Even if you can only pay minimum premiums leading up to retirement, at least you've created a source for reliable growth as well as supplemental tax-exempt income.

Assuming you had the foresight to fund Whole Life or IUL as the "relief pitcher" or "income bridge" for your stock portfolio, you could use our "**Red, Yellow, Green Light Decision Matrix**" to pull from your life insurance when its most needed in retirement.



What's the Next Step?

Ok, so how does one get started incorporating insurance products as your "income bridge"?

Everybody's situation is different, so we suggest booking a slot on our calendar for a free custom consultation with one of our licensed specialists.

For now, I'll speak in generalities below for the sake of educational purposes:

Considerations Leading Up to and Around Early Retirement:

- Read the studies and consider reducing risk around your retirement date
- Examine how both your after-tax and your retirement accounts are allocated
- See how your bond holdings performed in 2022 and look at their current yield
- Explore different types of principal-protected annuity options for pre-tax funds
- Learn if Whole Life and/or IUL would be an ideal receptacle for safe after-tax dollars
- Create your early retirement "income bridge" allowing your stocks to run freely
- Consider a gradual shift from pre-tax accounts (IRAs) into tax-advantaged accounts
- Understand taxes to take advantage of annual "bracket-absorbing" opportunities

What to expect on this free consult:

✓ Have your questions answered on the academic studies behind the strategy
✓ Gain an understanding of how your situation can potentially work within it
✓ Determine if there would be a good mutual fit in us working together

What Absolutely WILL NOT Happen:

✗ No pressure or pitches
✗ No speaking in financial tongues
✗ No holding back knowledge "until you buy"

Book your custom consultation to better understand your options!

BankingTruths.com

Bibliography for Footnotes

1. Permission to Spend by Tom Wall PhD (originator of the "relief pitcher analogy")
https://www.amazon.com/Permission-Spend-Maximize-Retirement-Best-Kept-ebook/dp/B0BQX4YDJZ

2. Blackrock's 2023 Fixed Income Outlook
https://www.blackrock.com/sg/en/insights/systematic-fixed-income-outlook

3. Vanguard Retirement Nest Egg Calculator (Monte Carlo simulations)
https://retirementplans.vanguard.com/VGApp/pe/pubeducation/calculators/RetirementNestEggCalc.jsf

4. Reducing Retirement Risk with a Rising Equity Glide-Path Whitepaper
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2324930

5. Safe Withdrawal Rates: A Guide For Early Retirees
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2920322

6. Accelerating The Rising Equity Glidepath, With Treasury Bills As Portfolio Ballast?
https://www.kitces.com/blog/accelerating-the-rising-equity-glidepath-with-treasury-bills-as-portfolio-ballast/

7. Treating Cash Value As A Fixed-Income Investment Choice by Wade Pfau
https://www.forbes.com/sites/wadepfau/2021/03/23/treating-cash-value-as-a-fixed-income-investment-choice/?sh=5d7c64654af3

8. CNBC Worst Year for Bonds
https://www.cnbc.com/2023/01/07/2022-was-the-worst-ever-year-for-us-bonds-how-to-position-for-2023.html

Dig into the data and see for yourself if a "dynamic retirement glidepath with income bridge" is right for you. I'd encourage you to read the source material as well as playing with Vanguard's Monte Carlo simulator to test the success/failure of different safe withdrawal rates in retirement.

Additional Learning Resources from BankingTruths.com:

The Various Ways Whole Life Insurance Helps Retirement:
https://bankingtruths.com/4-ways-whole-life-insurance-helps-retirement/

Collection of Articles & Videos on How Whole Life Works:
https://bankingtruths.com/product-roundup/

Collection of Articles & Videos on Whole Life as your own Bank:
https://bankingtruths.com/ibc-concept/

Book your custom consultation to better understand your options!