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Thinking

As their earnings increase, how can your clients maintain their income level in retirement?

Life insurance can help bridge the gap that the limits of Social Security and qualified savings plans leave

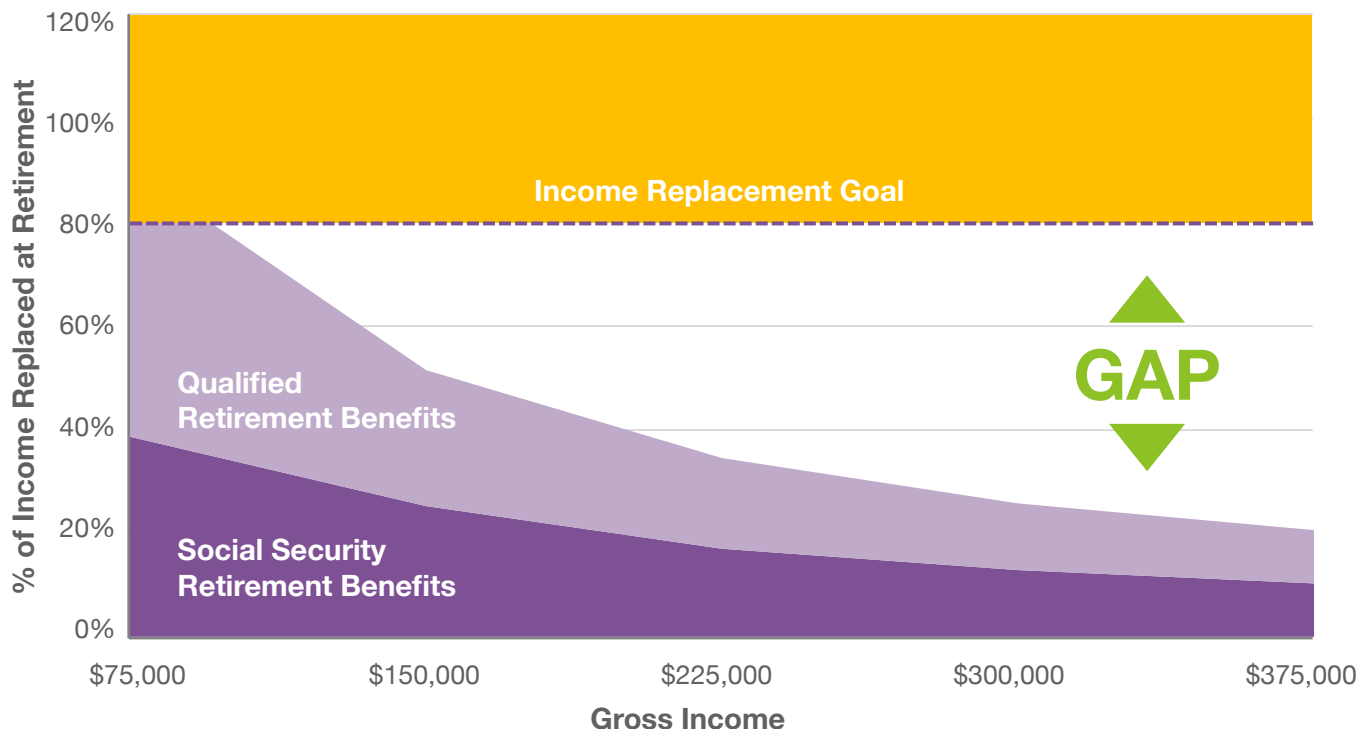
How it works

With Social Security and incentives that make tax-deferred savings plans like a 401(k) or an Individual Retirement Account (IRA) attractive, most Americans have the tools they need to adequately replace their income in retirement – experts recommend 80% of working income.

But Social Security benefits top out, and tax-deferred accounts have limits, so it can be challenging for individuals with higher incomes to save enough to maintain their lifestyle in retirement. That difference is called the retirement income gap. Life insurance – yes, life insurance – can help your clients close the gap.

How the retirement income gap can grow

The more your clients earn, the more retirement income they may have to make up if they rely on qualified savings plans alone. Diversifying sooner rather than later can help.



This hypothetical example is for illustrative purposes only and assumes a current age of 45, retirement age of 67, and the same income level each year. The graph assumes 401(k) annual contributions of the maximum employee allowed amount from age 40 to 66 and maximum annual distributions from age 67 to 121 of \$39,250. It assumes social security distributions beginning at age 67 (ssa.gov/OACT/quickcalc).

The limits of qualified savings plans

Limits may change on an annual basis. Below are the limits, rules and restrictions for 2020:

| Plan type | Maximum deferral | Maximum compensation eligible | Other notes |
|----------------|---|---|--|
| 401(k) | \$19,500 annually or \$26,000 for those over 50 | \$285,000 | Employees are considered highly compensated at \$130,000 prior-year wages. Could be subject to contribution limit. |
| Profit-sharing | Total amount of company and employee contributions equal to the lesser of 100% of compensation or \$57,000. | \$285,000 | N/A |
| Pension | \$230,000 | \$285,000 | N/A |
| IRA | \$6,000 or \$7,000 for those over 50 | Those with modified adjusted gross income (AGI) above certain amounts (depending on filing status) can't deduct IRA contributions if also in a qualified retirement plan. | No Roth IRA contributions may be made if modified AGI is higher than \$206,000 (married) or \$139,000 (single). |

Source: Internal Revenue Service Notice 2019-59, "2020 Limitations," [irs.gov/pub/irs-drop/n-19-59.pdf](https://www.irs.gov/pub/irs-drop/n-19-59.pdf)

For all of these plan types, early withdrawals could incur a 10% tax penalty in addition to taxes due at the client's standard tax bracket rate. Employer plan rules may further restrict or penalize early withdrawals.


Cash-value life insurance as the solution

There are a number of reasons a cash-value life insurance policy from F&G could be the solution your clients are seeking:

- Tax-deferred growth with no risk of loss of premium
- No penalties for distributions before hitting official retirement age
- Tax-free death benefit to protect the family and maximize the legacy left to heirs¹
- After-tax contributions mean a portion of distributions may be tax-free
- Living benefits such as loans and early access to the death benefit in the event of a critical or terminal illness

¹ There may be exceptions to this general rule. Consult a tax professional for more information.

Let us illustrate a policy for your next client.
Contact us today for more information at 888.513.8797.



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Information provided regarding tax or estate planning should not be considered tax or legal advice. Consult your own tax professional or attorney regarding your unique situation.

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients.

Surrenders, withdrawals and loans will reduce available death benefit and may be subject to surrender charges. Surrenders and withdrawals beyond basis may be taxable income and subject to penalties if taken prior to age 59 ½.

Optional provisions and riders have limitations, restrictions and additional charges.

Subject to state availability. Certain restrictions may apply.