

Could permanent life insurance complement your retirement plan - or would buying term and investing the difference fit better?

Supplemental Life Insurance Retirement Plan (LIRP) vs. Buy Term and Invest the Difference

Who this applies to

For higher-income or high-net-worth households with a real protection need, a supplemental retirement goal and a tax question worth reviewing. Wealth alone is not a qualifier. This review focuses on nonvariable permanent life insurance; variable life requires a separate compliance-reviewed comparison. “LIRP” describes a strategy using permanent life insurance; it is not an IRS-qualified retirement plan or a distinct insurance product.

Positive qualifiers: questions before products

Protection - Is there a documented life insurance need, with amount and duration established independently of the retirement pitch?

Retirement - Is there a supplemental retirement savings need after reviewing workplace plans, IRAs and other suitable savings options?

Tax context - Is there a meaningful tax consideration that your tax advisor can evaluate - not just a desire for a “tax-free” label?

Capacity - Can you sustain premiums through a difficult income year while keeping emergency liquidity outside the policy?

Underwriting - Are you willing to complete insurer medical and financial underwriting, and is an acceptable offer confirmed before acting? Do not enter health details here.

Time and risk - Can you commit to a long horizon, monitor the policy and loans annually, and accept charges, surrender restrictions and insurer or crediting risk?

Evidence - Do you have insurer-issued guaranteed and nonguaranteed cash surrender value, net death benefit and loan schedules, plus a comparable term quote?

Decision tree

No protection need: stop this insurance-led comparison and review investments separately. Any other “no” or “not sure”: resolve the gap before a product decision. All positive: proceed to comprehensive review, not approval or a recommendation. Underwriting willingness is not an insurability finding; only the insurer can make an offer, and an exam is not always required.

The napkin math: same budget, honest limits

Fictional teaching benchmark, not a quote or expected return. Both paths allocate \$30,000 at each year-end for 20 years (\$600,000 total). BTID assumes \$3,000 annual level-term cost and invests \$27,000 each year. Illustrative \$1 million initial coverage and 20-year term are placeholders, not verified available coverage. The policy would receive the same \$30,000 yearly budget. No policy result can be calculated without an insurer illustration.

20-year benchmark	BTID investment value	Policy cash surrender value
0% net annual return	\$540,000	Not provided - no projection
2% net annual return	\$656,029	Not provided - no projection
4% net annual return	\$804,008	Not provided - no projection
6% net annual return	\$993,211	Not provided - no projection

Benchmark rates are nominal annual returns net of ongoing investment fees and assumed annual tax drag, but before any final liquidation tax. They are sensitivities, not forecasts, and do not model market sequence risk or inflation. Investment contributions total \$540,000; tax basis requires separate tracking, including reinvested taxable distributions. Term premiums total \$60,000. Contributions occur at year-end. $FV = \$27,000 \times ((1 + r)^{20} - 1) / r$; at $r = 0$, $FV = \$540,000$.

Before making a quantified comparison

For a liquidation scenario, deduct applicable taxes from the BTID balance using account type, realized gains, basis and tax assumptions. For the insurance side, use issuer cash surrender schedules and a separate tax review; do not substitute account value or a compounding formula. This example provides no policy advantage, break-even age or retirement income claim.

The coverage constraint

Compare the same annual outlay, contribution timing and horizon. Establish the same coverage need and show each year's net death benefit. Term plus investments may leave a different legacy than permanent insurance; term expires and later coverage may be costly or unavailable. Do not present initial equal face amounts as lifetime matched protection. Show cash and death benefit as separate outcomes, never add a policy's cash value to its death benefit unless the contract specifically provides it.

What is missing

No carrier, product, underwriting class, verified premium quote, guaranteed schedule, nonguaranteed schedule or loan illustration is supplied. The permanent-policy column is deliberately unavailable. This is a preparation worksheet, not a completed suitability or performance comparison.

The financial case. The human tradeoffs.

Why consider it

A genuine long-duration death benefit need; a disciplined premium commitment; possible tax-deferred accumulation and policy-dependent access under current law. At a 4% benchmark, verified policy cash surrender value would need to exceed about \$804,008 at year 20 to exceed that benchmark cash amount before final tax adjustments. That is a hurdle, not evidence the policy achieves it.

Why you may not want it

Paying for insurance you do not need, surrender charges, commissions and other policy costs, years of restricted liquidity, the burden of monitoring loans, and fear of losing flexibility. A simpler investment account can feel more transparent and accessible; it also carries market risk, tax exposure and the discipline required to keep investing.

Charges and access

Obtain premium loads, commissions, cost-of-insurance charges, administration and rider charges, surrender schedules and policy-specific investment fees. Cash account value is not cash surrender value. Early exit can produce a loss.

Loans and lapse

Loans are not free withdrawals: interest accrues and loans reduce available surrender value and net death benefit. Access depends on policy terms and sufficient value. Lapse or surrender with an outstanding loan can generate taxable income even without cash received. Stress-test lower credited returns, higher charges where allowed and extended longevity.

Tax and MEC status

Non-MEC policy loans may avoid current federal income tax while the contract remains in force, but this is not a promise of tax-free retirement income. Modified endowment contract (MEC) loans and withdrawals are generally gain-first; taxable amounts may face an additional 10% tax before age 59½, subject to exceptions. Have the insurer confirm MEC status and the tax advisor review distributions. Surrender gain above adjusted investment in the contract is generally taxable.

Death benefit and product risk

Death benefits are generally excluded from federal income tax, subject to exceptions; this does not mean estate-tax-free. Guarantees depend on contract conditions and insurer claims-paying ability. Whole life, universal life and indexed universal life have different risks. Index-linked crediting is not direct ownership of an index; a zero crediting floor does not prevent policy value from falling because charges and loans still apply.

From illustration to a comprehensive review

Your next step

Arrange a comprehensive review with a CEPA-credentialed, Q4-trained financial advisor, coordinating with a licensed insurance professional and your tax/legal advisors. Review credentials, compensation and conflicts. This worksheet does not verify an advisor's credentials or Q4 training.

Evidence to bring

Bring a documented protection amount/duration, sustainable premium budget, emergency reserve plan, retirement savings alternatives, tax assumptions, comparable term quote, and insurer-issued guaranteed/nonguaranteed schedules. Require annual premiums, cash surrender value, net death benefits, all charges, loan rates/balances, withdrawal assumptions, lapse stress tests and MEC status. Compare after-tax accessible cash and net death benefits at matching dates, including later retirement years. No winner until the evidence is complete.

Questions your review should answer

What happens if premiums stop, returns disappoint, loan rates rise or retirement lasts longer? What is guaranteed versus merely illustrated? Which protection remains after year 20? What happens on surrender, lapse or death? What is the after-tax comparison under identical timing? Are lower-cost insurance and retirement savings alternatives more suitable?

Source notes / read-only references

Sources support the educational guardrails, not the fictional prices or returns. Retrieved for review October 23, 2026. Tax treatment depends on facts and current law. SEC source describes variable life specifically; do not apply its product mechanics to all permanent policies.

NAIC: Life Insurance Illustrations

<https://content.naic.org/insurance-topics/life-insurance-illustrations>

California DOI: Life Insurance Guide

<https://www.insurance.ca.gov/01-consumers/105-type/95-guides/07-life/life-ins-guide.cfm>

SEC Investor.gov: Variable Life Insurance

<https://www.investor.gov/introduction-investing/investing-basics/investment-products/variable-life>

IRS Publication 525: Taxable and Nontaxable Income

<https://www.irs.gov/publications/p525>

IRS: Life insurance proceeds

<https://www.irs.gov/faqs/interest-dividends-other-types-of-income/life-insurance-disability-insurance-proceeds>

IRS Revenue Bulletin 2007-07: MEC distributions

https://www.irs.gov/irb/2007-07_IRB

Privacy

This local prototype uses fictional values only. It requests no names, health history, financial records or identifying information. There is no submission, account, tracking or case storage. Downloaded files remain your responsibility.

Take the next step

Request a comprehensive review with a CEPA-credentialed, Q4-trained financial advisor.

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Not tax, legal or investment advice