

## The gift of leveraging

*Retirement is difficult for Millennials and Gen X-ers to think about, but leveraging cash-value life insurance for parents and grandparents could net \$1 million for their own retirement*

Thomas J. O'Connell, Correspondent | October 12, 2016



Retirement is a difficult subject to think about, especially when you're in your 20s, 30s and 40s. Retirement seems so far away, and there are so many other things to think or worry about. However, as I've mentioned in prior columns, that day will be here sooner than you think, and the regrets of the Baby Boomers, such as not saving enough or not starting soon enough, may be yours as well.

There is another disadvantage the Millennials and Gen X-ers have too, and that is the continuing low interest rate environment and lack of guaranteed retirement income.

Let's do some math: 1) You're 30 today, 2) You'll retire at 65, 3) Your annual retirement income need is \$50,000 in today's value, 4) We have 3 percent inflation so by the time you are 65, you'll actually need \$140,000 a year to live, like it is \$50,000 today. If you use the 4 percent rule, meaning you withdraw 4 percent from your investments each year for income without depleting your principal, you'd need a lump sum of \$3.5 million or if you were being a little more realistic and used a 2 percent rule, you'd need \$7 million. Either way, these are some pretty daunting numbers.

How do you get there? That's the \$64,000 question, pardon the pun. Doing it on your own, earning 5 percent a year compounded for the next 35 years, you'd need to save about \$39,000 a year.

WHAT?! With that type of savings need, how will you save for the kids' college or the new house or car?

Another disadvantage is that your parents and grandparents may not have the financial wherewithal to help you either. Unlike the "Greatest Generation" folks, the Baby Boomers are struggling with their own retirement needs and may not have anything left to leave you. But there is something they can provide you that could actually propel you much closer to your own financially sound retirement and than some. That thing is leverage, and it won't cost them any money out of their pocket.

What if your parents could provide you the ability to make five, 10 or 20 times your investment? What if it could be guaranteed? What if it could be tax free? What if it could be used for those other purposes, such as buying a car, a house or the kids' college costs? Wouldn't that be an incredible legacy for you and your family? And will it impact their retirement?

Well, there is a way by purchasing a permanent (cash value) life insurance policy on your parent(s) or grandparent(s). Now look, I'm not trying to be ghoulish, and we all want our parents to live a long, happy, healthy life, but unless you want to work into your 70s or 80s, you most likely won't be able to save enough. The single biggest gift your parents could give you today is the leverage you can create through the use of life insurance on their lives. Remember that they have to be healthy enough to qualify for it but provided you can afford to pay the premium each year, it'll have no financial impact on their retirement and you could end up with five to 20 times in a tax-free benefit from the premiums you've paid.

The likelihood is that you couldn't afford to buy \$3.5 million of insurance on your parents and the insurance company probably wouldn't let you, but if you could get \$500,000 or \$1 million, that could dramatically reduce the financial pressure you will face as time goes on, and you close in on your own personal retirement.

Think of some of the benefits of permanent life insurance: 1) Tax-free death benefits 2) Cash value to use as "your own bank" 3) Flexible premiums 4) Leverage 5) Compounding and tax-deferred interest.

I never like to say, "Think out of the box," because for some people it gives them a negative connotation. I like to help my clients create "bigger boxes" that will give them more tools than they've ever had to achieve their financial success. This is one of those tools.

I urge you to work with a very experienced adviser when doing something like this. There are a number of things that could go wrong if you don't properly engineer this

life insurance policy. To use an old saying, "This isn't your mom and dad's life insurance."

In the spirit of Oct. 16 to 22 being National Save For Retirement Week, I hope this new tool in your bigger box can bring you and your family the financial success and security for which you are looking.

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