



Tax Diversifying Your Retirement Income

Retirement used to be more predictable. You could retire comfortably on Social Security benefits, a company pension (in many cases) and a modest amount of personal savings. There were higher tax rates and more tax brackets, making tax-deferral an effective retirement planning strategy.

Your Retirement Has Changed

Given the new retirement landscape, you may need to rethink your approach to retirement planning. Consider these facts:

If no substantial action is taken before the Social Security Trust Fund is exhausted in 2036, benefits would be reduced by 23%, and up to 26% by 2085.¹

The maximum Social Security Income (SSI) benefit in 2011 for a worker retiring at full retirement age of 66 is \$2,366 per month.²

Only 20% of private industry workers and 79% of state and local employees participated in a defined benefit pension plan in March 2009.³

According to the Centers for Disease Control and Prevention, life expectancy in the U.S. increased 1.4 years from 76.5 in 1997 to 77.9 years in 2007.⁴

Tax Diversification Can Protect You

Tax diversification simply means that you have a source of tax-advantaged income supplementing your taxable income, if structured properly,⁵ to help reduce your overall tax burden.

Why Tax Diversification Is So Important

It used to be that if your annual income was \$100,000, and you took qualified deductions to lower your taxable income to \$80,000, you would most likely fall into a lower tax bracket. So, you put money into tax-deferred vehicles, delaying taxation until you fell into a lower tax bracket in retirement. That may no longer be the case because we are currently in one of the lowest tax rate environments in history, and there are fewer tax brackets. Today, a reduction in your taxable income may not result in a lower tax rate. However, if you tax diversify your retirement income, you can potentially put yourself into a lower marginal tax rate, without lowering your standard of living.

All Assets Have Unique Tax Consequences

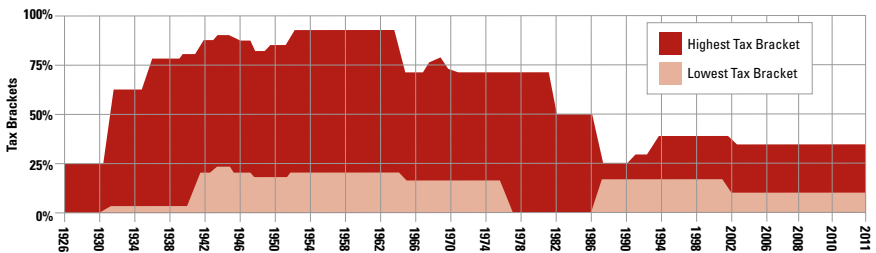
When creating the ideal retirement plan, remember all assets have unique tax consequences.

401(k)s and Traditional IRAs	Roth IRAs, Tax-Free Municipal Bonds and Cash Value Life Insurance
<ul style="list-style-type: none"> ■ Pre-tax money is contributed to 401(k)s and traditional IRAs. 	<ul style="list-style-type: none"> ■ After-tax money is paid into a combination of Roth IRAs (if you qualify), tax-free municipal bonds and cash value life insurance.
<ul style="list-style-type: none"> ■ It has the opportunity to grow tax deferred, but is taxable when you use the money. 	<ul style="list-style-type: none"> ■ It grows tax deferred, and is generally income tax free when you use the money.*
<ul style="list-style-type: none"> ■ If it is passed on to heirs, it is taxed at the beneficiaries' tax rate. 	<ul style="list-style-type: none"> ■ The death benefit from cash value life insurance is passed on to heirs, generally income tax free.

* Municipal bonds may be subject to the Alternative Minimum Tax.

Where Are Tax Rates Going?

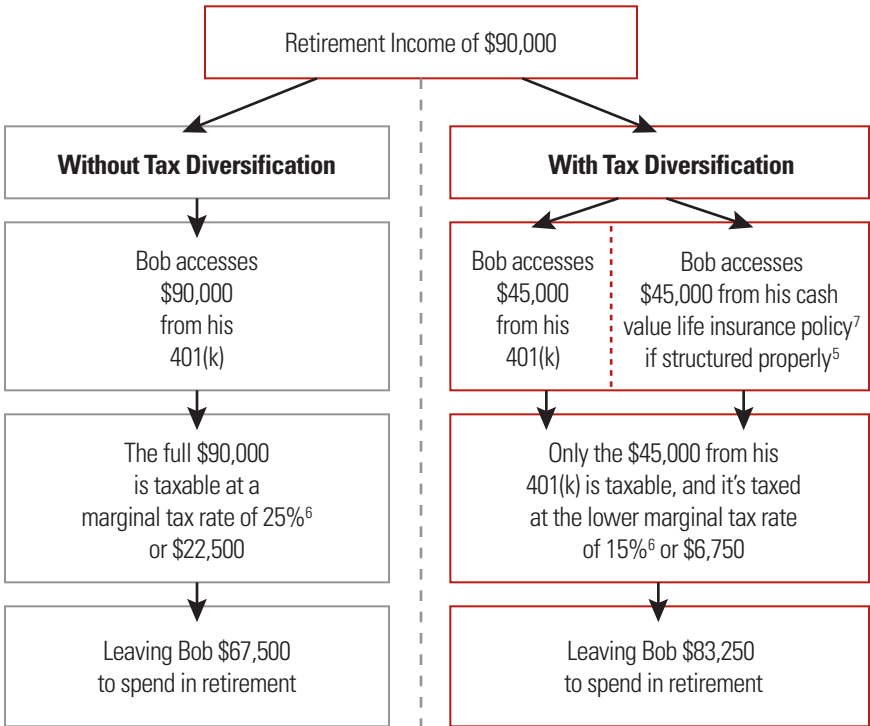
The graph below illustrates the high and low marginal tax rates over history.⁹



Source: www.taxfoundation.org/taxdata/show/151.html

Tax Diversification with Life Insurance

While life insurance is primarily purchased for death benefit protection and is subject to underwriting, it can be an important part of your retirement and legacy plan. Let's take a look at how life insurance can be used in retirement. Bob, age 67, is retired and plans to access \$90,000 of his retirement savings this year. He is married and filing jointly and assumes no additional income this year. Whether or not he tax diversifies in advance of his retirement will have a significant impact on how much money Bob will have to spend.



Grow the Tax-Free Element of Your Retirement Income

There are several options for growing the tax-advantaged component of your retirement income, but only cash value life insurance enables you to pass on a legacy to your heirs, generally income tax free, and provides a source of tax-free supplemental retirement income.^{7,8}

Cash value life insurance accumulates cash value tax deferred and can be accessed tax free, making it a vital element of a tax-diversification strategy. If structured properly,⁸ the policy's cash value can be accessed at any time, without IRS penalty, through loans, and partial surrenders. So, the money can be used to supplement your existing retirement income,⁷ support a surviving spouse after a pension-earning spouse passes away, or for unexpected expenses.

Security and Flexibility

Cash value life insurance can be viewed as part of a holistic approach to retirement funding. If you live a long life, you can draw on the cash value to help supplement your other sources of retirement income.⁷ With optional customizable riders, such as the Disability Waiver of Premium rider, if you become disabled, you can ensure your policy will be kept in force. And, you can pass on an income-tax free death benefit to loved ones, which they can use as a foundation for their retirement.

The Right Approach for Today's Environment

Given the instability of Social Security, dwindling company-sponsored pension plans, uncertainty of tax rates and increasing longevity, it's clear that those planning for retirement need to tax diversify and can do so by making permanent life insurance a part of their retirement plan.

Your Financial Partner for Life

By partnering with New York Life, you get unparalleled financial strength from a company that has been mutually owned for over 160 years. Mutuality means we answer only to our policyowners, not to stockholders. Your New York Life agent can help you create a tax-diversified retirement plan that meets your needs and goals, so that, regardless of the retirement landscape, you'll live the retirement lifestyle you've always envisioned.

New York Life Insurance, its affiliates and subsidiaries, and agents and employees may not provide legal or tax advice. Individuals should always seek and rely on the advice of their own independent tax and legal professionals.

Notes:

¹ Estimates based on the intermediate assumptions from the 2011 Social Security Trustees' Annual Report to Congress.

² Social Security Online, http://ssa-custhelp.ssa.gov/app/answers/detail/a_id/5/-/maximum-social-security-retirement-benefit

³ "Program Perspectives," Vol. 2, Issue 3, U.S. Bureau of Labor Statistics, April 2010.

⁴ "U.S. Life Expectancy at All-Time High," <http://well.blogs.nytimes.com>, August 19, 2009.

⁵ Distributions exceeding cost basis will result in taxation.

⁶ Marginal federal income tax bracket filing status, when filing status is married and filing jointly, or for a qualifying widow or widower under current rates.

⁷ The cash value in a life insurance policy is accessed through policy loans, which accrue interest at the current rate, and cash withdrawals. Loans and withdrawals will decrease the total death benefit and total cash value. Policy values are based on non-guaranteed factors, such as dividends and interest rates, which are subject to change. Therefore, the supplemental retirement income is not guaranteed.

⁸ Provided the policy stays within the tax-law definition of a life insurance contract, and the policy is not a Modified Endowment Contract (MEC). Distributions, including loans, from an MEC are taxable to the extent of the gain in the policy and may also be subject to a 10% additional tax, if the owner is under age 59 1/2. Even if a policy is not an MEC, certain withdrawals made within the first 15 years of a policy may be taxable under certain circumstances.

⁹ Exemptions, deductions, and state and local taxes are not taken into account when illustrating these marginal tax rates. Your actual tax rates may vary from those shown on the graph. Remember that historical rates are not a guarantee of future rates.



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