Ernst and Young (EY) Research Paper:

Benefits of integrating insurance products into a retirement plan

EY has just released new groundbreaking, independent, and unbiased research on financial planning. Their perspective is clear—a financial plan that combines permanent life insurance (PLI), income annuities[1], and investments is more likely to outperform an investment-only approach over the long term. Also, having permanent life insurance and annuities along with investments gives clients more options to generate income in retirement, maximize their legacies, or strike a balance between the two.

This new research offers a sophisticated and detailed explanation of four reasons why this approach to financial planning can be the most effective:

Better financial outcomes

Based on the scenarios run, the combination of insurance, income annuities, and investments leads to more income in retirement, and larger legacies to leave your loved ones— both of which lead to the ability to spend more confidently today. The key reason is because permanent life insurance and income annuities both outperformed fixed income over the long run.

PLI + investments outperform term life + investments

Having permanent life insurance in a portfolio not only offers a death benefit, but the cash value a policy holds grows over time in a way that is safer and separate from the rest of the portfolio, creating more long-term value.

Flexibility

Regardless of risk tolerance, integration works. Permanent life insurance is not only guaranteed to grow over time, but along with the guaranteed income of an annuity, it offers investors the opportunity to take on more risk in other areas of their portfolio and potentially see higher values.

> "Our analysis shows that integrating insurance products into a financial plan provides value to retirement investors."
>
> —EY Americas

Save on taxes

Permanent life insurance and income annuities both offer tax-deferred growth. Plus, a PLI death benefit is generally tax-free[2] and its cash value can be accessed tax-free through a policy loan.[3]

Why integrated strategies perform better

According to EY, integrated strategies outperform investment-only strategies in both retirement income and legacy. Here's an example of how. A strategy for a 35-year-old couple, allocating 30% of annual saving to PLI and that same couple at age 55, allocating 30% of assets to an Income annuity produced 3.5% higher retirement income at age 65 and 16.3% more legacy at age 95 than the investment-only strategy.[4] That's because PLI and the income annuity tend to outperform fixed income.

Integrated strategies provide investors with the flexibility to focus on the financial outcomes most important to them: retirement income, legacy or a balance in between."

—EY Americas

To read the full EY research paper, click here.

[1] "Income Annuity" refers to a Deferred Income Annuity with increasing income potential, "which represents deferred income annuities with persistency bonuses and non-guaranteed dividends" referred to as "DIA with IIP" in the EY article.

[2] A rare exception is when a policy, or an interest in a policy, is transferred for value. In that situation the death benefit may be subject to income taxation.

[3] The primary purpose of permanent life insurance is to provide a death benefit. Utilizing the accumulated value through policy loans, surrenders, or cash withdrawals will reduce the death benefit, and may necessitate greater outlay than anticipated and/or result in an unexpected taxable event. This research assumes that the permanent life insurance polic(ies) are not a Modified Endowment Contract (MEC), which have unique taxation aspects.

[4] There are a number of important assumptions underlying this research, which are detailed in the EY Research Paper. Retirement income values reflected in the research are on an after-tax basis and calculated at the 90% probability of success. The legacy at the end of the time horizon is based on the investor spending the retirement income solved for at the 90% probability of success. Legacy values also reflect the impact of any applicable taxes (i.e. taxes on qualified assets or estate taxes) and are from the median distribution.

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(REV 0321)