Life Insurance

- **What would be the financial consequences of an unexpected death in your family?**

- **Do you know the difference between Term Life, Graded Whole Life, Traditional Whole Life, and Universal Life?**

- **Is the life insurance policy you chose the right one for you?**

- **Do you know that life insurance can grow large sums of income-tax-free cash for Retirement?**
- **Have you had your policy reviewed recently?**

Indexed Universal Life insurance as an investment? Many financial experts will tell you that life insurance is an expense, and not an investment. For the record, life insurance is not an investment in the traditional sense. This is because a part of the premium payment is applied to the cost of insurance and not available for future growth. So, you could say that life insurance and investments are two different animals. However, these animals live on the same plain! because life insurance eats up part of your capital, all things being equal, real investments will generally outperform a life insurance contract. However, in this world, things are not always equal; especially as it pertains to taxation. And, it's the taxation of investments that give life insurance some amazing advantages.

Cash values in life insurance policies grow tax deferred, but through the policy Loan Provision, years of growing cash values can be accessed tax free! Years of income tax free distributions, (loans if you would) paid out over a life time that are then paid off at the policy owners death with an income tax free death benefit.

The Value of Universal Life Insurance to Build and Preserve your Estate:

Imagine a concept that allows your cash to grow tax-deferred with shared market gains, no annual losses and the gains can be accessed tax free. Imagine a market crash and not only do you experience no losses, but you are repositioned for strong future gains. These are the benefits of a properly structured Indexed Universal Life (IUL) insurance policy. The Idea behind this concept is based on the strategic , overfunding of a IUL, coupled with the preferential tax treatment given to life insurance by the IRS to maximize cash growth.

1. **Death Benefit:** The primary purpose of life insurance is the death benefit. It is in fact the unique tax treatment of the death benefit that makes the whole strategy work. Death benefits are received income tax free by your beneficiaries. Additionally, any loans received during their lifetime are paid off from the Death Benefit. The Balance of the Death Benefit will be paid tax -free to the Beneficiary. So, receive income tax free dollars while you're still living, and give income tax free dollars to your beneficiaries upon your death.

2. **Tax deferred growth:** For the record, cash values in life insurance policies grow tax-deferred, not tax-free. However, insurance companies have designed a way to access an equivalent amount of cash value within your policy completely tax-free utilizing a Policy Loan Provision.

3. **Cash accumulation:** Like most cash-value life insurance policies, an IUL provides for cash accumulation within the policy. This cash can be accessed at any time. The cash accumulates in an IUL through its indexing or "tie-in" to the S&P 500 often with a cap. So if the Cap was 10% and markets were to climb 5-6% in an average year, that amount is credited to your account. In an unusually good year when the market exceeds 10%, the amount above 10% is credited to the insurance company. In return, the insurance company will contractually guarantee that your cash values will never have a negative annual return due to market loses.

4. **Access to your Cash:** Tax-qualified retirement plans such as a 401K, SEP, or IRA, grow tax deferred much like life insurance. However, in the case of tax-qualified plans, the IRS requires that you must wait until age 59 ½ to access your money without a steep tax penalty. With an IUL your money is accessible at any age without federal tax consequences in most cases.

5. **Avoiding Probate:** Because life insurance is a contract with a named beneficiary, the death benefit is paid directly to that beneficiary within days of the death of the insured. Compare that with the months of lengthy litigation and expense imposed on a probated estate. In most cases a legal trust is required to avoid probate. This is not required with Life Insurance.

6. **Protection from Lawsuits:** The cash value inside a life insurance policy is protected from creditors, whether that is due to bankruptcy, lawsuits, or a legal judgement. For individuals in high income professions this can be one of the most significant features of the policy.

7. **No Minimum Age:** Unlike tax-qualified plans, such as an IRA, where an individual must attain a minimum age before they can put a strategy into place, life insurance strategies can be implemented at any age. Children as young as one month can begin the process of growing tax-deferred cash throughout their lifetime.

8. **Reset Provision:** The reset provision allows an individual to capture and lock-in each year of positive returns in the market. So, any gain in cash value, in any given year, is locked-in on the anniversary date and is protected against loss. The cash value on the reset date becomes the new basis for future growth. Catastrophic losses such as those seen in 2008 can increase the potential for gains in future years due to this provision.

Transfer of Taxable Assets to Non-Taxable Assets:

Not long ago a California billionaire purchased the largest personal life insurance policy on record – over $250 million. The purpose was two-fold; pay estate taxes upon his death and to transfer his taxable cash assets to a life insurance asset which is non-taxable. This individual will allow cash that had previously added to his tax burden to now grow tax-deferred within his IUL. Later, he will begin removing the earned cash within his policy through tax free loans thereby reducing the size of his taxable assets and reducing his taxes for all asset categories. All of this is made possible because of the death benefit that will ultimately pay off all loans and provide tax-free cash to his beneficiaries Life insurance is the only vehicle that allows this to occur.

Who Can Utilize this Strategy?

This strategy is not for everyone. First, you must be healthy enough to be insurable. It also takes time for the cash growth to reach an optimum level that allows you to remove cash without causing your life insurance to lapse. This can take from 10 – 20 years depending on how quickly you fund your policy. As this is a long-term strategy that takes time to develop, you should consider it in conjunction with other strategies in a diversified portfolio.

Your Life Insurance Choices:

The type of life insurance one would purchase is generally based on your need, health and your ability to pay. People often question why it might cost $100 per month to purchase $100,000 of insurance while their neighbor is only paying $40. Well, insurance costs can vary widely depending upon your age, health and the type of insurance you select. Always talk with an experienced Life insurance agent before making your decision. Avoid television ad's and mailers that advertise *"you can't be turned down or "no health questions asked"*. These are usually the most expensive and least desirable policies. Insurance companies take advantage of the fact that many people are hesitant to meet with Insurance Agents for fear of being sold the wrong Policy or making a bad decision.

Types of Life Insurance

1. **Accidental:** You can purchase this at most any bank; it's inexpensive but you must die from an accidental cause for this policy to pay on a claim. No health requirement is necessary to qualify for this insurance. Typically, $20 per month can buy $200,000 of insurance.

2. **Term:** Covers you for a set period (10, 15, 20 yrs. Etc.), but usually not past age 85. When the selected period is reached your insurance either ends or in many cases will become too expensive to continue. Death benefits start at around $50,000 and can exceed a million or more. No cash value accumulates with this policy and your health is reevaluated at each term renewal period.

3. **Whole life:** This can be the most confusing to shop. Sold as either Graded (limited death benefit in the first 2-3 yrs.) or Traditional (insurance begins immediately and lasts a lifetime). Costs vary widely between companies. Whole life has cash value with death benefits starting as low as $1,000.

4. **Universal Life**: Considered the most flexible, desirable policy with a better cash growth opportunity. Universal Life is a more complex form of whole life insurance. You should consider this policy only after meeting with an insurance agent who has extensive knowledge and can explain the workings of this policy. The funding of a UL policy depending on what you wish to accomplish, can range from simple and straight forward to very complex. A valuable estate planning tool, death benefits start as low as $25,000 and can reach several million with substantial cash accumulations.