Life Insurance As An Asset

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Life insurance as an asset

The value of asset diversification

The practice of spreading money among different investments is known as diversification. Owning different types of financial assets may help reduce the risk of adverse affects caused by market downturns or changes in tax laws.

Life insurance is an integral part of a diversified portfolio

Life insurance is often thought of as a necessary expense to protect the financial well-being of your loved ones when you pass away, but it has the potential to offer more when you consider its advantages as an asset.

When planning for your future, it's important to include assets that can adapt to your changing needs. The flexibility to help you protect, accumulate and transfer wealth makes life insurance a significant value, enabling you to:

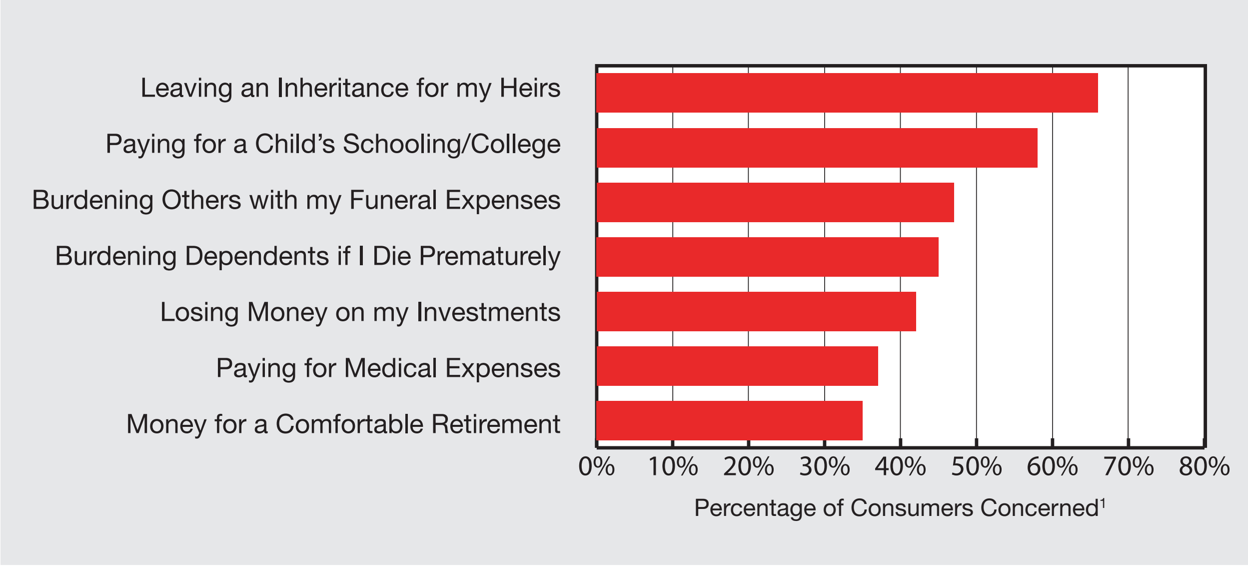
Create financial protection for your family

Build equity to supplement future income needs

Leave a legacy to the ones you love

Consumer concern over financial issues

Life insurance may be able to help when it comes to some top financial concerns.



Protection for your loved ones

1 in 3 Households would have immediate financial trouble if their primary wage earner died today.[1]

Another 1 in 4 would have trouble keeping up with basic living expenses after several months.[1]

75%

Overall, 75% of all households would have trouble covering everyday living expenses if the primary wage earner died.[1]

Creating financial protection for your family

Protecting income for your loved ones is valuable in itself. If you were to die prematurely, you want to make sure your family is taken care of financially. That's the primary purpose of life insurance.

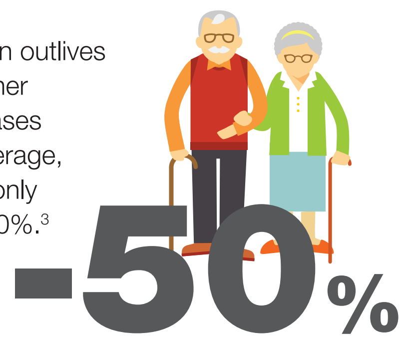
Stay-at-home parents

Even a parent who's not the family breadwinner should consider life insurance. Replacing the care a stay-at-home parent provides can be expensive, and life insurance can be a source of these funds if the unexpected happens.

Later in life

The life insurance death benefit can be valuable later in life as well, helping to make sure your spouse doesn't struggle alone during retirement. If your spouse were to outlive you by 10 or 20 years or more, would they be able to make ends meet?

When a woman outlives her husband, her income decreases by 50% on average, yet expenses only decrease by 20%.[3]



Roughly 80% of widows living in poverty were not poor when their husbands were alive.[2]

More protection

If you're diagnosed with a serious illness, it's comforting to know you have life insurance in place so your loved ones will be taken care of if you're no longer around. But what happens if you don't die? During medical treatment, life insurance may also provide living benefits to help ease the financial strain.

80%

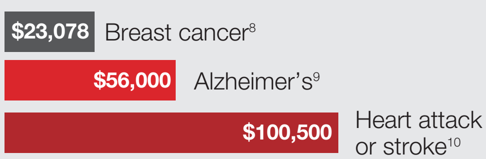
About 80% of older adults have at least one chronic illness. 68% have at least two.[4]

70%

70% of us will need support to meet health or personal care needs.[5]

Financial impact

Facing a serious medical condition can be financially overwhelming.



Keep in mind that even the best health insurance won't cover all your health costs. Even with the best planning, there will be unforeseen and unexpected charges.

62% of Americans who are struggling with medical bills have health insurance.[9]

Build cash for future needs

Future income needs

It's easy to see why having enough money to have a comfortable retirement is the top concern among consumers.

52%

52% of Households are "at risk" of not maintaining standard of living in retirement.[10]

40%

40% of Americans have no emergency savings.[11]

4.2%

College costs have increased 4.2% every year for the past decade.[12]

Life insurance may help

Your life insurance policy may provide funds in situations where you need money, say for a child's college tuition, additional retirement income or an emergency, by taking a loan against the policy's cash value*.

*Tax law permits a policy owner to withdraw life insurance policy cash values up to the policy owner's basis or investment in the contract without income tax consequences. Withdrawals and loans will reduce the available death benefit. Withdrawals beyond basis may be taxable income. Excess and unpaid loans will reduce policy value and may cause the policy to lapse. If a policy lapses, unpaid loans are treated as distributions for tax purposes. For more information about the tax results of life insurance, consult your attorney or tax advisor.

Life insurance and retirement savings

Qualified plans, such as 401(k) plans and traditional IRAs, are a good place to start your retirement savings. However, these types of plans alone will likely not be sufficient to reach your retirement objective. Many retirement savings tools enjoy tax-deferred growth but may pose limitations on the amount you can save or, if your income is too high, limit your use of them. Life insurance provides the flexibility to help you meet your retirement income goals:

Life insurance has no annual contribution limits or income eligibility limits You are generally not restricted on the amount you can allocate towards a life insurance policy. You can contribute more than the required minimum premium, allowing the potential to build even more cash value.[A]

Life insurance can help reduce the impact of a down market Life insurance may be used as an alternate source of funds in a down market year. A non-variable policy may not be affected by short-term volatility and may help you get through changing economic conditions.

Life insurance has no penalties on distributions Part of a savings strategy should keep some assets available without incurring penalties and taxes if possible. Life insurance can fill this role. You can begin taking loans and withdrawals from the available cash value at any age without penalty.[B, C]

[A] Contributions in excess of certain guidelines will disqualify the policy as life insurance for federal income tax purposes or may classify the policy as a modified endowment contract, thereby eliminating certain tax benefits.

[B] Tax law permits a policy owner to withdraw life insurance policy cash values up to the policy owner's basis or investment in the contract without income tax consequences. Withdrawals and loans will reduce the available death benefit. Withdrawals beyond basis may be taxable income. Excess and unpaid loans will reduce policy value and may cause the policy to lapse. If a policy lapses, unpaid loans are treated as distributions for tax purposes. For more information about the tax results of life insurance, consult your attorney or tax advisor.

[C] Unless policy is a modified endowment contract.

The impact of taxes

39.6%

Top marginal tax rate

The top marginal tax rate for the highest income earners is currently 39.6%.

Average top rate

60%

The average top rate over the last one hundred years has been nearly 60%.

Taxes can have a significant impact on how much of your savings you ultimately get to use once you retire. The tax treatment of cash value loans is a powerful option to have at retirement, offsetting what might be lost to taxes from other retirement savings.

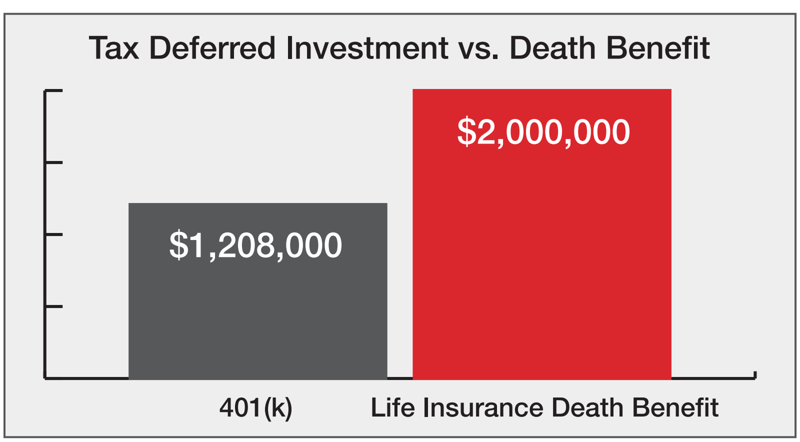
How much can taxes impact your legacy?

Taxes can also have an impact on how much you leave for your loved ones. If much of your wealth is tied up in tax deferred assets, such as a 401(k) or IRA, it could be fully taxed to the beneficiaries at their income tax rate when transferred to them. This tax treatment immediately decreases the net value of the inheritance.

The income tax-free death benefit provided by life insurance can help minimize these adverse tax implications.

Income tax-free death benefit

To help illustrate how the value of having an income-tax free death benefit, look at the impact income taxes have on a 401(k) account valued at $2 million after it's paid to a beneficiary who's in the top tax bracket of 39.6%. The beneficiary will have to pay taxes on the 401(k) account, which has a significant impact on its value. Compare that to what they would receive from an income-tax free life insurance death benefit of $2 million.



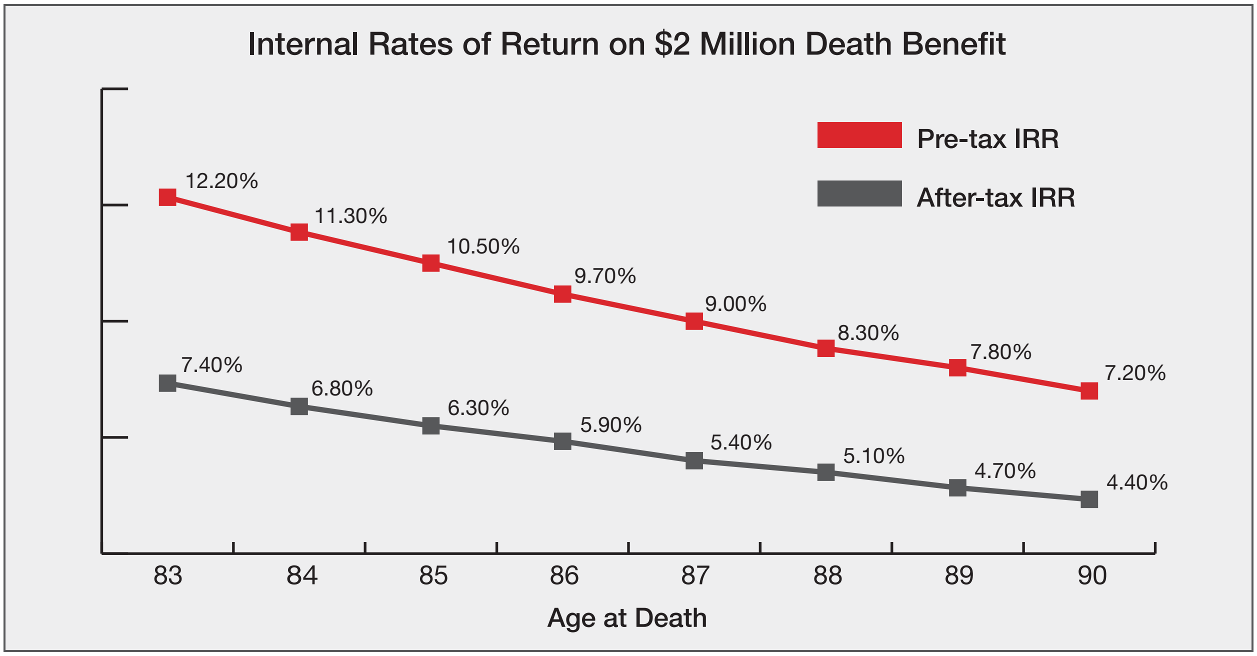
66% more

The life insurance death benefit would provide $792,000 more to the beneficiaries.

Internal rate of return

Early on, life insurance can leverage a limited number of premium payments into a sizeable death benefit. Even in the later years, your policy earns a competitive internal rate of return—the rate of return that the premiums you've paid would have to earn in order to equal the death benefit.

For example, look at a 60-year-old male who purchases a $2 million life insurance policy with an annual premium of $30,000. If he were to pass away at age 83, the life expectancy for a 60-year-old male, his policy would have earned an internal rate of return of over 7%. Assuming he's in the highest tax bracket of 39.6%, the pre-tax equivalent is over 12%.



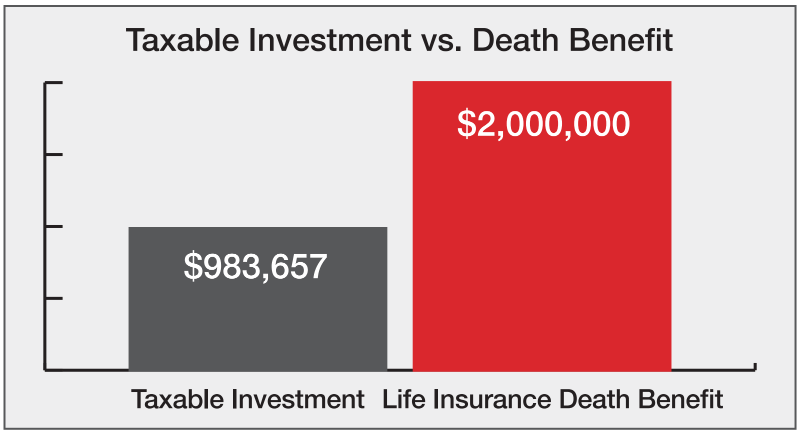
Leave a legacy

Predictability

It's hard to find a similar asset that would provide the type of return that a life insurance death benefit provides. In fact, the average investor realizes returns of only about 3.7 percent.[14]

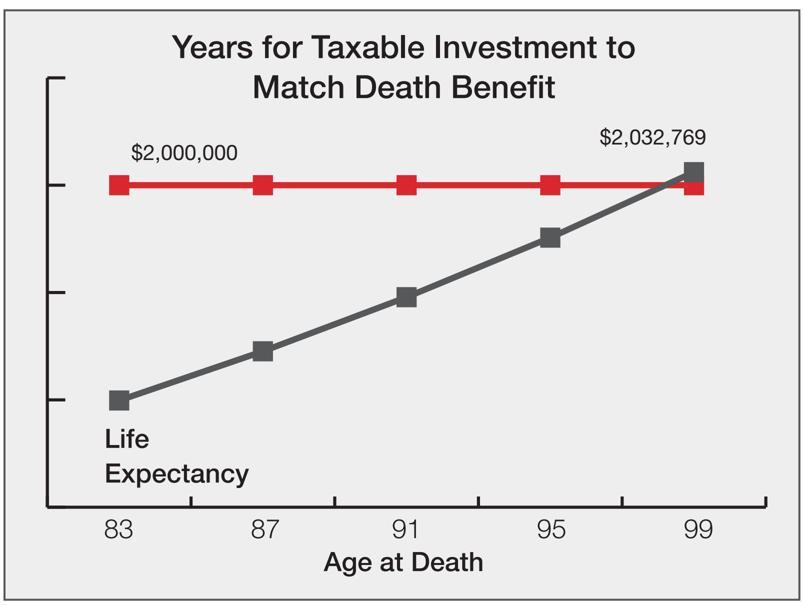
Going back to the example of the 60-year-old male who purchases a $2 million life insurance policy with an annual premium of $30,000, let's say he invested that $30,000 every year in a taxable investment, such as a mutual fund, instead, earning an average annual return of 4%, subject to an income tax rate of 39.6%.

Compare the amounts that the beneficiary would receive if death occurs at age 83, his life expectancy.



103% more

The life insurance death benefit would provide $1,002,801 more to the beneficiaries if he passed away at age 83.



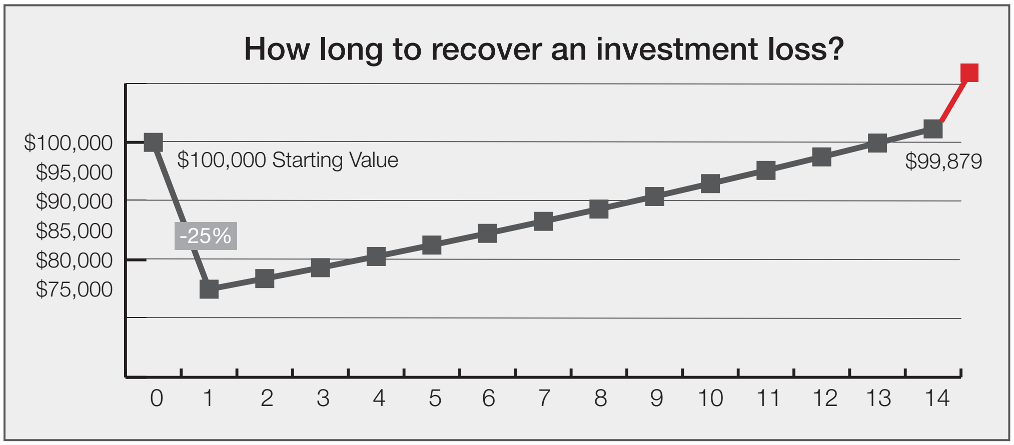
It would take almost 16 additional years for the investment to match the $2 million life insurance death benefit.

Keep in mind that the death benefit rate of return materializes on life insurance when the insured dies, whereas rates of return on alternative investments can occur without a death.

Investment risk

In the investment world, nearly all assets are subject to risk. Ups and downs in the market are something we're all faced with. However, in times of economic uncertainty, life insurance may be used to help stabilize an investment portfolio.

To illustrate, think about an investment experiencing a 25% loss and how long it would take to recover from that loss. Most likely, it's longer than you'd expect.



A 25% loss would take about 13 years earning an average annual return of 4% and subject to a federal income tax rate of 39.6%.

Example is hypothetical and for illustration purposes only. If the investment earned average annual returns of 4% subject to 28% federal income tax, it would take a little over 11 years to return to the break-even point.

As you can see, other assets can be problematic because their value isn't stable, they fluctuate with the performance of their respective markets. The life insurance death benefit is not linked to market performance. That means the market could be down 50% and it wouldn't matter.

Knowing the guaranteed death benefit amount from life insurance may allow you flexibility, perhaps giving you the option to invest another portion of your portfolio more aggressively because of the certainty that the policy's death benefit adds to your overall portfolio.

Life insurance is an asset that can efficiently transfer wealth, offering a unique combination of potential advantages:

- Life insurance can leverage a limited number of premium payments into a sizable death benefit
- Life insurance offers a predictable death benefit amount that is not linked to market performance
- The death benefit is paid in cash right when it is needed, with no income taxes and potentially no estate taxes subtracted from the amount that is paid to your loved ones
- The death benefit can be easily divided among several beneficiaries based on how you want the proceeds distributed
- The death benefit is paid directly to your loved ones without the costs and delays that often impact assets distributed through the probate system

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[1] LIMRA Life Insurance Barometer Study, 2016

[2] US Census Bureau

[3] LIMRA Market Facts Quarterly, Fall 2015

[4] Centers for Medicare & Medicaid Services, Chronic Conditions Prevalence State/County Table: All Fee for Service Beneficiaries 2015

[5] http://longtermcare.gov/the-basics/who-needs-care/

[6] January 2016 report, The Burden of Medical Debt: Results from The Kaiser Family Foundation/New York Times Medical Bills Survey

[7] http://costprojections.cancer.gov/annual.costs.html

[8] http://www.alzfdn.org/MediaCenter/docs/CareCosts.pdf

[9] Heart Disease and Stroke Statistics - 2010 Update, American Heart Association

[10] National Retirement Risk Index, Center for Retirement Research at Boston College, 2016

[11] Bankrate's Financial Security Index, 2016

[12] The College Board, "Trends in College Pricing, 2013"

[13] IRS, Statistics of Income Division, Historical Table 23; IRS, Revenue Procedure 2008-55

[14] http://www.qidllc.com/wp-content/uploads/2016/02/2016-Dalbar-QAIB-Report.pdf

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