

## **Life Insurance: Secret Tool of the Wealthy**

Life insurance deserves a place in your portfolio because of its unique strengths.

There is much misunderstanding, among both advisors and the public at large about life insurance. Life insurance used appropriately and combined with financial planning, can be an outstanding use of your capital. What gives life insurance such a wonderful quality is tax benefits. The tax treatment that is embedded in section 7702 of the IRS Tax code— the money grows tax free and may be enjoyed completely tax free.

There are many different types of insurance policies designed for a variety of situations. So that you may become more familiar with the various forms of life insurance policies, we have prepared the following brief descriptions of the basic types of insurance policies available.

**Term Life Insurance** has two primary types of term (or temporary) life insurance: Straight Term Life Insurance, and “Return of Premium” Term Life Insurance.

**Permanent Life Insurance** has a number of specific unique concepts. Permanent life insurance (PLI) always has “cash value,” because it is required to maintain the policy in force for your entire life. And eventually what you put in will equal the death benefit (minus any expenses), over time, with interest, and tax-advantaged.

This cash value can and should build up quickly in order to optimize your advantage. When used as a wealth building strategy, it can also be a highly effective source of passive and *tax-free* retirement income.

Thus, permanent life insurance provides multiple benefits — not just a death benefit for protecting the family, but also the possibility of using it for multiple large capital expenses and retirement income.

The versatility of these policies can add flexibility in handling a variety of financial issues and not just “money paying premiums.”

**Universal Life Insurance** policies have been constructed to permit variable premium payments for variable death benefits. If you have cash flow variations, you are not “stuck,” and can still have the coverage you want.

**Variable Universal Life (VUL)** has variable premium payments, variable death benefits, variable expenses, and variable cash values. The cash values vary according to the underlying investment choice. We are not big fans of this because you pay too much to transfer the risk to an insurance company and then you take back much of the risk. Many of these have not performed as expected, or worse, may have “lapsed” or expire worthless.

**Guaranteed Universal** is an alternative where the death benefit does not vary, nor will your minimum premium payment. The advantage over term is that your coverage lasts for your entire life, as long as you make the required premium payments. Your premium payments have not gone to waste—your beneficiaries will receive the value. It has minimal cash value such that if

you fail to make a few of the payments, the policy will not “lapse.” However your premium payments offer you no cash value (because it is insufficient) while you are alive.

**Equity Indexed Life Insurance (EIDL)** policy provides a good value for clients who wish to have minimum guarantees on the cash value in their policies while being able to enjoy some stock market participation with a tax advantage. These policies have upside growth potential associated with one or more types of stock market indexes. This type of policy may provide both security and opportunity for growth.

**Whole Life Insurance policies** have no market return. However, they do have a competitive *steady compounding* opportunity, also with tax advantages. We have seen and written many policies paying over 5% today. How can they pay that much? Simple. You as the policy-holder are also an owner of the insurance company (in a “mutual participating” carrier). The carrier distributes some of its profits to you. Your payments and your expenses are fixed. Your death benefit is pre-determined and contractually guaranteed. Your returns vary slightly depending on interest rates.

With so many options, you can find a life insurance policy that works well for you. We welcome your call to discuss the various types of life insurance and how they fit into an overall plan of wealth building, with no obligation to you. We look forward to your call (866) 977-2252.