Permanent Life Insurance…

is an Asset, Not an Expense!

PERMANENT LIFE INSURANCE - The product's tax, legal and financial advantages make it an asset that should be a component of virtually every client's financial portfolio.

Whether you have personal planning needs, business protection needs, supplementary retirement needs, or wealth planning needs, Permanent life insurance offers great competitive advantages that no other financial vehicle can match. These advantages fall into three major categories:

1) Tax advantages
2) Financial and Design advantages
3) Legal and Contractual advantages

These inherent advantages make Permanent Life Insurance a vehicle that should be a Key Component of every Financial Plan!

What about **term life insurance**? Certainly term insurance has a place in many planning scenarios where protection needs might terminate after a fixed period of time. However, because of its actuarial design, term insurance can't offer the major advantages offered by Permanent cash value insurance. Term insurance ends after a fixed number of years and only pays a death benefit if the insured dies while the policy is still in force. Term insurance is designed to terminate before the usual **life expectancy of most individuals**. This can create a problem if there remains a need for asset protection or asset accumulation, which could be a lifetime need.

Permanent life insurance can be designed to pay a death benefit whether you live to your life expectancy or not. Of course, Permanent life insurance differs from carrier to carrier. The type of policy implemented should be selected based on your situation and risk profile. These policy types include Guaranteed Lifetime Coverage Universal Life (UL); Current Assumption Universal Life; Variable Universal Life (VUL); **Indexed Universal Life (IUL)**; and Traditional Whole Life. Most of these permanent types of policies offer a unique combination of features and benefits that place them in a class by themselves. The key differences are the Design, Flexibility, Funding and Implementation of the policy or in many instances, multiple policies.

Federal tax benefits of life insurance

Listed here are a number of federal tax benefits that give a significant competitive edge to permanent life insurance that other financial vehicles cannot match.

- IRC Section 101(a) provides that death benefits of life insurance are income tax free when paid to the policy beneficiary. This is true whether the death benefit can also be made estate tax free if the policy is owned by third party (adult child) or an irrevocable trust.
- The policy can pay out tax-favored benefits to the policy owner before the death of the insured. For non-MEC policies, cash can be withdrawn from the policy tax free up to the adjusted cost basis (First in, First out-FIFO) under IRC Section 72(e)(5). Withdrawals will reduce the policy's cash value.
- The policy can pay out tax-free ongoing income, to the policy owner in the form of a partial surrender and policy loans with a stated rate of interest. This assumes the policy remains inforce. Loans will reduce the policy's cash value and the death benefit. The loan balance is repaid by the death proceeds.
- Tax-free distributions are not subject to the 3.8% passive income tax under the Affordable Care Act (ACA). Tax-free withdrawals or loans are not considered as income for purposes of calculating income taxes on Social Security retirement benefits. Permanent life insurance is not considered to be a countable asset on the FAFSA application for college financial aid at public colleges.
- The policy owner may receive an advance of some of the death benefit for certain long-term care type expenses, chronic, critical, or terminal illness under IRC Section 7702B or IRC Section 101(g). These potential benefits depend on the design of the policy which may or may not include certain long term care riders.
- Growth of policy cash value in excess of the cost basis are income tax deferred while the funds remain in the policy. However, a complete surrender of a policy in a gain position will have income tax consequences on the gain in excess of adjusted cost basis.
- A policy in a gain position can be exchanged tax-free directly to another insurance company under IRC Section 1035(a). Often, this exchange can result in an equal or greater death benefit, lower or no future premiums, or a combination of both.
- A policy in a gain position can be exchanged tax-free to another carrier for either a deferred annuity or an immediate annuity contract under IRC Section 1035(a).

Financial and Design advantages of life insurance

- Life insurance is a financial asset that is designed over an assumed life expectancy of large number of individuals over a long period.
- Universal life policies allow the flexibility to adjust if needed, the death benefit and premiums. Policies may be designed with different crediting methods based on no-lapse guarantees, current assumption interest crediting, crediting based on a stock index like the S&P, IUL, and Mutual Funds VUL.

- Policies may utilize certain riders for term insurance, such as long term care type benefits, waiver of premium for disability, over-loan protection, permanent enhancement and other features.

- The life insurance industry is and has been for hundreds of years the most Secure Industry in America! Today's products, pricing, and flexibility of policy design assures that U.S. consumers have a wide variety of policy types, features, and carrier financial strengths to choose from, based on their personal financial and protection needs.

Legal and contractual advantages of life insurance

- Life insurance is a legal unilateral contract between you and the insurance company. Any guarantees specified in the contract are legally enforceable under state law protections in all states.

- Insurers are heavily regulated in all 50 states and are required to reserve significant assets to pay future death claims.

- The life insurance industry has established state "guarantee funds" to pay valid claims on policies issued by any carrier that becomes insolvent or in receivership. Insolvent life insurance carriers are an extremely rare event. Prospective purchasers of life insurance should ask for the current Financial Strength rating of each carrier with which they propose to do business. This can be based on Moody's, Standard & Poor's, A.M. Best, and rating agencies.

- Many states have adopted statutory law that protects policy cash values and death benefits from the claims of the policy owner's creditors.

- Policy owners have the contractual right to assign the ownership of the policy to a new owner; the right to change the beneficiary; the right to collaterally assign the policy to offset a debt obligation to a financial institution or other legal person; and with the use of a Universal Life Policy to adjust the premium and death benefits if needed.

Permanent Life Insurance can provide the stability, along with the security for both you and your family. A properly funded Indexed Universal Life Policy should be part of any retirement and investment portfolio.

1. However, unlike other financial assets, its purchase is not an automatic transaction. Life insurance companies have underwriting rules and guidelines to gather and evaluate your medical and financial situation.
2. If these underwriting requirements are successfully met, a policy will be issued to you, as the policy owner, upon payment of the premium.

* Tax Free Income and/or Distributions are based on using partial surrenders and zero or low cost policy loans, with the policy structured and funded within IRS/MEC guidelines. The policy must remain inforce to avoid a taxable event. Kelm Financial Services Inc. does not provide legal advice nor tax calculations, preparation or advice. Consult with a licensed professional in that field for additional information.

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