

CAPITAS FINANCIAL

Life Insurance as an Asset

OVERVIEW

Your client may already own life insurance or be aware of its primary use - providing money to their family or other beneficiaries when they are no longer here. Yet, the value that life insurance can bring to a comprehensive, integrated estate plan goes far beyond providing cash liquidity through the payment of death benefits. Whether they want to leave a legacy to their family for generations to come, assure the continuation of a business they have built or make a significant impact through philanthropy, the strategic use of life insurance can help them address their goals.

The concept of life insurance as an asset is an approach to help your clients in their long-term financial planning. Life insurance can help round out their overall portfolio by providing security and guarantees while not giving up growth potential, regardless of market performance. Life insurance is often thought of as a necessary expense to protect loved ones' futures in the case of a premature death, but it has the potential to offer more when considering its advantages as an asset.

DIVERSIFIED PORTFOLIO

Your clients may not view life insurance as an investment that fits inside their portfolio. However, once a need for the death benefit has been established, there are other benefits to consider. As an asset that is uncorrelated to changes in the market, it adds significant value in helping build and retain wealth, even in uncertain economic times. It's time to start thinking outside the box when it comes to life insurance.

SIZEABLE DEATH BENEFIT

Clients may not always understand that the death benefit from a life insurance policy enjoys an internal rate of return (IRR)—the rate that the cumulative premiums paid thus far would have to earn in order to equal the death benefit when paid in a given year. In addition, because life insurance proceeds are generally paid income tax-free, the IRR on the death benefit is equivalent to an after-tax yield.

Remember that the life insurance death benefit is income tax free. It would take a significant pre-tax equivalent to match the death benefit protection provided by life insurance.

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.

**Loans and withdrawals will reduce a policy's cash value and death benefit, may cause the policy to lapse, and may have tax implications.*

ACCESS TO CASH VALUE

Policy cash values grow slowly in the early years of the policy. However, based on the policy's accumulation value, it may grow into a significant amount in later years. Through a series of loans and withdrawals, the policy owner could access the cash value to supplement retirement income.*

INCOME TAX FREE DEATH BENEFIT

Since the value of an investment portfolio is subject to market fluctuations, beneficiaries may receive more or less than expected depending on the performance of the investment portfolio. Life insurance may help hedge against market losses by providing a guaranteed death benefit that is uncorrelated to market changes.

A wealth transfer plan needs to consider taxes and costs that will be triggered during the transfer process and implement strategies to help minimize them. Using life insurance as one of the components of a wealth transfer plan may improve a plan's efficiency and increase how much is passed on to loved ones.

Depending on the value of your client's assets and current tax laws at the time of death, the assets may be subject to taxation. If not thought out thoroughly, taxes can significantly diminish the amount of wealth that can be left to heirs. When properly structured, life insurance can provide advantages.

WHAT PRODUCT SHOULD YOU CONSIDER?

Positioning life insurance as an asset focuses on permanent life insurance products:

- Whole Life
- Index Universal Life
- Survivorship Universal Life
- Universal Life
- Variable Universal Life

TARGET MARKET

A diverse mix of products that includes life insurance may better enable your clients to adapt to future accumulation, protection and transfer needs. Look for clients who:

- Have a need for permanent life insurance protection
- Are interested in building cash to supplement future income needs
- Want to leverage the legacy they leave for loved ones



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