

# Talk of the Town

## Life Insurance: The Tax Planning & Retirement Miracle



James D. Stillman

I often wonder why more financial professionals don't teach the advantages and benefits of life insurance planning. Younger folks and retirees alike can benefit tremendously by utilizing life insurance in the proper way. Life insurance can be used for income replacement, tax planning, tax free retirement income planning, legacy planning, estate planning, and the list goes on and on. It can do so much more than people give it credit for.

Basically, there are two types of life insurance to consider: term or permanent. Term is typically the cheapest with the highest death benefit per dollar paid. It doesn't build cash value and will run out at the end of the term (unless you renew at an increased rate). Term insurance is the simplest type of life insurance you can get and is best suited for covering a temporary need. Don't fall prey to the "buy term and invest the rest" gimmick that a lot of talking heads preach.

Non-permanent insurance should only be purchased for non-permanent coverage needs, period. Permanent insurance, which includes whole life, universal life, and indexed universal life costs more, but can be flexible and structured to meet your individual needs. Permanent insurance can build cash value that can be used for many purposes. Premiums can be flexible and the coverage will last forever if designed properly. Be sure you're choosing the appropriate type of insurance and coverage/premium structure to suit your needs.

Here are the primary advantages of life insurance planning:

- A) Death benefit is income tax free for heirs.
- B) Cash values grow tax deferred, plus attractive investment options are available.
- C) Leverage of your dollars. One dollar paid may buy two or three (or more) dollars of coverage.
- D) Living benefits can allow you to access a portion of death benefit for long term care or terminal illness.
- E) Retirement income planning (tax free – see below)
- F) Tax & legacy planning to optimize IRA values for heirs
- G) Investment planning. We consider life insurance to be another "asset class".

I could go on and on about the advantages of proper life insurance planning, but I want to touch on two strategies we use in our office that have been very successful.

**1) Tax Free Retirement:** This strategy is used for younger folks that have time to build cash value. It's the opposite of what most think in trying to pay low premium for high death benefit. The goal is to build cash value, so we get the lowest allowable death benefit for the premium paid. Why? Because once the cash value is built up, you can take a tax free loan against your policy.

When you pass away, if the loan has not been paid back, then it's simply deducted from the death benefit. So, the cash value grows tax deferred, the death benefit is income tax free to heirs, income/loans are tax free to you, and you decide how much you want to contribute without IRS limitations. Compare that to your typical IRA, 401k, 403b, etc. With typical IRA planning you defer the tax and the tax calculation. Do you think taxes are going up or down in the future? If you think they're going to go up, then does it make sense to wait until later to pay the taxes or would you rather get the taxes out of the way now?

**2) IRA Rescue:** Are you retired and have a 100% taxable IRA? Do you need the income from the IRA? Who are your beneficiaries? Do you want most of your IRA to pass on to your family or the IRS? If you're not relying on all of the income generated by your IRA and you'd like to be sure as much of your wealth as possible stays in your family, then life insurance could be the tool for you. Here's one simple strategy. Create a guaranteed stream of income from your IRA and use the after tax income (or a portion of it) to buy a life insurance policy. The tax free death benefit would replenish some or all of the taxes that would be due to heirs for the IRA, thus increasing the net inheritance to your family in most cases. What's not to like? In this case, we'd want to get the highest death benefit for the premium. We refer to this as a "leveraged life plan", and savvy people apply this strategy all the time (wealthy folks, company CEO's, etc.).

So, as you can see, life insurance can be an awesome retirement and estate planning tool. Stop by the office or give us a call if you'd like more information or a free consultation.

*Remember: The purpose of the money dictates where you put it.*

Until next month,  
James D. Stillman

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