# 5 common permanent life myths, debunked

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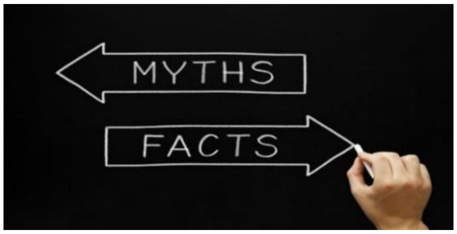


Today's permanent life insurance is designed specifically for retirees and those nearing retirement, providing a good source of tax-free funds for big-ticket items, that if unprepared could put a dent in a tight retirement budget.

The *new and improved* permanent life insurance provides a broad range of financial benefits with long-term value over generations. It provides families and small business owners with a much-needed source of funds and retirees with access to additional income — all the while building guaranteed cash values, and paying death benefits to beneficiaries.

Often, financial pundits have discounted the benefits of permanent life insurance in favor of trendy, equity-oriented vehicles that seemed to offer higher returns at lower costs, often forgetting to contemplate the *"risk-reward trade-off"*. Now is a good time to set the record straight on 5 common myths about permanent life insurance.

***Myth #1: You only benefit from permanent life when you die.***

*Facts: That's really wrong! Participating permanent life policy owners enjoy substantial "living" benefits during their lifetime of coverage.*

• "Participating" (or "par") insurance company policy owners generally receive annual dividends after the first policy year. That's because there are no outside shareholders in a mutual ("par") life insurance company.

• Dividends can be used to fund policy premiums or to buy more permanent increments of death benefit and cash value.

• Access to the policy's cash value is typically available through withdrawals and tax-free loans

• Alternatively, the cash value of the policy can be pledged as collateral for a tax-free loan.

• Small business owners may borrow against their policies to provide working capital.

• Wealthy individuals use permanent life in their estate planning by setting up an insurance trust to pay estate taxes from the proceeds of the policy.

• Retirees who own permanent life insurance can look to generate more cash flow from their other assets because of the certainty and inevitability that the ultimate death benefit will deliver to their heirs. They may elect higher paying annuities or spend-down other retirement assets rather than living only on current yield.

***<u>Myth #2: Permanent life is a lousy place to put your money.</u>***
*Facts: Um, no...*

• The value of a permanent life insurance policy is uncorrelated to the stock market and is largely guaranteed by the insurer, so that neither death benefits nor cash values are affected by declining markets. Therefore, a permanent life policy can serve as the stable component of a financial strategy.

• You purchase permanent life insurance to protect your family in the event of your death. However, it's much more than that. It's actually one of the most valuable assets in your financial portfolio. A permanent life insurance policy has a real return that performs competitively within other high-quality, fixed return assets.

And, depending on how you use it, it can end up being two assets and two returns — a living asset with tax-advantaged distributions — and an income-tax-free and potentially estate-tax-free death benefit.

***<u>Myth #3: Once you retire, you should cash in your life insurance policy.</u>***
*Facts: Not so fast …*

• Retirement is no longer the appropriate time to drop life insurance — it's the time when many people realize the importance of buying it!  Continuing permanent life as part of a financial strategy provides an additional level of security, financial freedom and a legacy for loved ones, even if other assets are used for retirement.  Moreover, many situations involve estate liquidity problems that can only be solved through the availability of immediate cash.

Heirs can use the proceeds of a permanent life policy to pay estate taxes. Families with real estate, closely held businesses, leveraged investments or margined stock portfolios — to name just a few categories — often use life insurance to offset the significant cash liquidity demands on their estates.

• Permanent life also provides a good source of tax-free funds for big-ticket items that could put a dent in a tight retirement budget — such as a grandchild's college tuition or wedding. Through the loans and withdrawals available to permanent life policy owners, an individual can supplement retirement income with tax-free funds if the distribution is structured properly and the policy is not a Modified Endowment Contract.

• Some families may want to establish "special needs" trusts to provide financial care for family members with health issues, and life insurance is ideal for that purpose.

• Permanent life can offer you the luxury of being able to spend down other assets first, since you would already have in place a financial foundation for the next generation — the legacy is secure.

***Myth #4: Permanent life is too expensive.***
*Facts: In considering whether to purchase permanent life or to "buy term and invest the difference," you must take into account not just the premium cost, but also the length of time you want coverage and your ability to "invest the rest" efficiently.*

• Term insurance *isn't* designed for lifetime coverage. In fact, term insurance is prohibitively expensive to maintain for the average U.S. life expectancy of 78.9 years — never mind to age 100. Term costs can average a staggering $700,000 per $1 million of death benefit, and more than $4,000,000, to age 100 for a $1 million policy.

• For longer periods — an entire lifetime — permanent life insurance is substantially less costly than a lifetime of premiums paid for term. If the well-defined needs for life insurance will not exceed 30 years, a term insurance policy will often be "cheaper."

• While term life is typically affordable during the primary premium guarantee period (5 to 30 years), annual premiums quickly escalate to an unaffordable level once the guarantee period ends.

• With term insurance, the policyholder does not accumulate any lasting cash value. At the expiration of the term of the insurance, the policyholder owns nothing, in contrast to permanent life insurance, where premiums build cash value that belongs to the policy owner.

• Permanent life insurance provides a disciplined means of accumulating cash values that are guaranteed (with respect to the base policy) and subject to the declaration of dividends for that complementary portion of a long-term policy's projected values.

• Permanent life insurance has flexibility in how you initially structure the contract. Whether you structure around long-term premiums or blending in term within the same policy, you may get a product premium that is competitive with an extended level-term product, while creating the potential for long-term increases in death benefit.


***Myth #5: Once you buy life insurance, you don't have to think about it again.***

*Facts: Sticking the policy in the bottom of your file cabinet and never thinking about it again isn't the best way to approach your life insurance purchase.*

•Economic realities can affect your policy's cash values. Just as you periodically review your other asset classes to check their performance, you need to review this one as well.

• Permanent life is generally designed with the built-in flexibility to make modifications.

• Performing due diligence is also critical:

– *Sometimes, reviewing your policy can result in a reduction in your premium.*

– *Positive health changes can sometimes lower premiums on policies you already own.*

– *Policies with loans and withdrawals, if not managed, may jeopardize some long-term policy provisions or guarantees.*

– *Policies held in trusts need review, too. Just because a policy is out of your estate doesn't mean it should be out of your mind!*

• Performing policy maintenance can help link your advisors together, strengthening their relationships around you. Crosscheck ideas between your investment, tax, estate, and insurance advisors.

• Of course, if you purchased term insurance, discuss your options *soon*! When the term period runs out, premiums will escalate and conversion may be a viable option.

And of course, it's always important to consider who stands behind the policy guarantees. The safety and security of your permanent life policy depends on the insurer from whom you acquire it. That's why it makes sense to buy permanent life from a well-established mutual carrier that has decades of experience in the industry and maintains a high credit rating.