



## **THE BENEFITS OF OWNING LIFE INSURANCE**

Life insurance is a unique and often under-utilized financial tool and asset. Because of its potential high yield and its tax-favored benefits, it can be used to solve some perplexing financial problems in a cost and tax effective manner.

### **Life Insurance Provides a Liquidity Hedge**

Market fluctuations, liquidity cycles, and taxes can cause sudden, unexpected drains on liquidity. Life insurance companies guarantee a block of liquidity at a time when death and taxes hit a family or an estate may be in their greatest need. The liquidity provided by a life insurance death benefit can:

- Pay off a mortgage;
- Replace a salary or income to protect a family;
- Pay estate, capital gains, and income taxes; and
- Equalize the inheritance you leave to your heirs.

### **Life Insurance Provides Financial Diversification with a Competitive Rate of Return**

Life insurance is a unique financial instrument providing a competitive rate of return, special tax benefits, and a hedge against premature death. It is an important asset in overall asset diversification. This is even more critical when other assets are high growth, high risk, and potentially illiquid, long-term investment horizon assets. Life insurance allows a person to remain fully invested in these higher risk assets, yet remain fully protected. (Please see the illustrations that follow.)

### **Life Insurance is a Tax Efficient Vehicle**

There are many tax advantages associated with owning a life insurance policy. First, life insurance death proceeds are received free of income taxes.<sup>1</sup> This means that an estate or family may receive more money and a better return on the premium than if you had invested those dollars in a taxable asset.

Second, life insurance also provides the equivalent of a “step-up” in basis at death. Assuming a person buys \$500,000 worth of stock, which has grown to \$1,000,000 when it is sold. Capital gains taxes on the \$500,000 profit would have to be paid. Assuming the current 15% capital gains tax bracket and the average state tax bracket of 5%, this would reduce the amount left by \$100,000. With life insurance, heirs would receive the full \$1,000,000 free of income taxes, effectively “stepping-up” their basis in the policy to the total death benefit.

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<sup>1</sup>Life insurance death benefit proceeds are generally excludable from the beneficiary’s gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.



Third, life insurance policy cash values grow tax-deferred and can be accessed in a tax favored manner. There is no tax on the growth in a life insurance policy's cash value unless the policy is surrendered or lapses during the insured's life time. Furthermore, policy loans and withdrawals up to your total premium payments are received income-tax free.<sup>2</sup>

### **Life Insurance Provides “Self-Completion” of Financial Plans in the Event of Death**

Most financial plans, regardless of the investments or size, require sufficient time for ongoing contributions and earnings growth. Unfortunately, a premature death may result in the original plans may not come to fruition. A savings plan may not have had enough time or contributions to grow to a size needed to implement a financial plan, or surviving business members may not have the liquidity to keep the business entity a going concern. Death proceeds from a life insurance policy death benefit can facilitate “self-completion” of any financial plans by providing cash to compensate for the loss of estate taxes, planned contributions and future earnings.

### **Life Insurance Provides Liquidity to an Estate to Pay Taxes**

Life insurance provides liquidity to an estate when needed for the payment of taxes, administrative fees and creditors to avoid the forced liquidation of other estate assets. When an estate is sufficiently large, combined Federal and State estate taxes can be more than 50% of an estate, and are due within nine months after death.

### **Life Insurance Can Facilitate a Business Transfer**

Business owners often agree to buy a deceased owner's share from his or her estate after death. This provides liquidity to the deceased owner's family, and allows the surviving business owners to purchase the business. Life insurance provides the ready cash at precisely the time when it is most needed.

### **Life Insurance Can Guarantee the Success of a Financial or Estate Planning Technique**

Now more than ever, financial planning requires knowledge and imagination. Nowhere is this truer than in wealth transfer planning. A wide variety of tools, some very complex, have emerged in recent years: FLPs, GRITs, GRATs, GRUTs, CRUTs, NIM-CRUTs, among others. Planners must understand and use these techniques if they are to serve their wealthy clients adequately, let alone if they hope to acquire new ones. Yet no matter how sophisticated the planner and the tools, the simple fact remains that there is only one asset that guarantees success in wealth transfer tax planning: life insurance.

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<sup>2</sup>Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½. Cash value available for loans and withdrawals may be more or less than premiums paid.



## Sample Individual Universal Life

**Male, Age 60 in Good Health**

**\$1,000,000 - Guaranteed No-Lapse**

Sample Insurance Company - Individual Universal Life

**Guaranteed \$1,000,000 Face Amount**

Nonguaranteed Crediting Rate - 5.25%

Year	Age	Annual Premium	Cash Surrender Value	Death Benefit	After-Tax Rate of Return at Death	Equivalent Pre-Income Tax Rate of Return Assuming a 30% Blended Rate	Equivalent Pre Income and Estate Tax Rate of Return Assuming a 50% Estate Tax
						30.00%	50.00%
1	60	16,557	0	1,000,000	5939.74%	8485.34%	16970.69%
2	61	16,557	0	1,000,000	628.76%	898.24%	1796.47%
3	62	16,557	0	1,000,000	253.92%	362.74%	725.49%
4	63	16,557	4,676	1,000,000	146.45%	209.21%	418.43%
5	64	16,557	18,835	1,000,000	98.74%	141.06%	282.13%
6	65	16,557	33,591	1,000,000	72.55%	103.65%	207.29%
7	66	16,557	49,446	1,000,000	56.26%	80.37%	160.74%
8	67	16,557	65,680	1,000,000	45.25%	64.65%	129.30%
9	68	16,557	82,474	1,000,000	37.38%	53.41%	106.81%
10	69	16,557	99,581	1,000,000	31.51%	45.01%	90.02%
11	70	16,557	117,269	1,000,000	26.97%	38.53%	77.07%
12	71	16,557	135,042	1,000,000	23.38%	33.40%	66.81%
13	72	16,557	152,615	1,000,000	20.48%	29.25%	58.51%
14	73	16,557	169,993	1,000,000	18.08%	25.84%	51.67%
15	74	16,557	186,589	1,000,000	16.09%	22.98%	45.96%
16	75	16,557	199,357	1,000,000	14.39%	20.56%	41.13%
17	76	16,557	211,052	1,000,000	12.95%	18.50%	36.99%
18	77	16,557	221,338	1,000,000	11.70%	16.71%	33.42%
19	78	16,557	229,819	1,000,000	10.61%	15.16%	30.31%
20	79	16,557	236,029	1,000,000	9.66%	13.79%	27.59%
LE 21	80	16,557	239,404	1,000,000	8.81%	12.59%	25.18%
22	81	16,557	240,322	1,000,000	8.06%	11.52%	23.04%
23	82	16,557	238,338	1,000,000	7.39%	10.56%	21.12%
24	83	16,557	232,910	1,000,000	6.79%	9.70%	19.41%
25	84	16,557	223,264	1,000,000	6.25%	8.93%	17.86%
26	85	16,557	208,453	1,000,000	5.76%	8.23%	16.46%
27	86	16,557	187,370	1,000,000	5.32%	7.59%	15.19%
28	87	16,557	158,571	1,000,000	4.91%	7.01%	14.03%
29	88	16,557	120,232	1,000,000	4.54%	6.48%	12.96%
30	89	16,557	70,093	1,000,000	4.20%	6.00%	11.99%
31	90	16,557	5,340	1,000,000	3.88%	5.55%	11.10%
32	91	16,557	0	1,000,000	3.59%	5.13%	10.27%
33	92	16,557	0	1,000,000	3.33%	4.75%	9.51%
34	93	16,557	0	1,000,000	3.08%	4.40%	8.80%
35	94	16,557	0	1,000,000	2.93%	4.19%	8.38%
36	95	16,557	0	1,000,000	2.80%	4.00%	8.00%
37	96	16,557	0	1,000,000	2.68%	3.82%	7.64%
38	97	16,557	0	1,000,000	2.56%	3.66%	7.32%
39	98	16,557	0	1,000,000	2.46%	3.51%	7.02%
40	99	16,557	0	1,000,000	2.36%	3.37%	6.75%
41	100	16,557	0	1,000,000	2.27%	3.25%	6.49%

**Assumptions:**

- Assumes insurance is issued with insurance company's best underwriting class of "preferred non-smoker" on proposed insured.
- Life expectancy of 21 years (JLE) is based on the 2001 CSO Mortality Table.
- Insurance death benefit is guaranteed by the insurance company as long as the scheduled premium is paid.
- Insurance cash values are based on the current crediting rate, and current insurance company mortality charges, expenses, and taxes, and are not guarantees or estimates for the future. Thus, actual cash value will either be more or less favorable than illustrated using current assumptions. In this regard, please refer to the insurance company illustration for a review of insurance values with maximum insurance company mortality charges, expenses and taxes, and minimum guaranteed crediting rate.
- This is a supplemental model based on illustrations provided by the insurance company. Although this model has been carefully prepared, the insurance company illustrations should be relied upon in the event of a discrepancy. Neither this model, nor the insurance company illustrations upon which this model is based, constitutes a contract.
- We do not express any opinion on the investment, legal, or tax consequences of this plan, and you are responsible for consulting your own investment advisors, legal counsel, and accountants for all such advice.



**Sample Survivorship Universal Life**  
**Male, Age 60 and Female, Age 60, Both In Good Health**  
**\$5,000,000 - Guaranteed No-Lapse**

**Sample Insurance Company - Survivorship Universal Life**  
**Guaranteed \$5,000,000 Face Amount**  
 Nonguaranteed Crediting Rate - 5.25%

Year	H's Age	W's Age	Annual Premium	Cash Surrender Value	Death Benefit	After-Tax Rate of Return at Death	Equivalent Pre-Income Tax Rate of Return Assuming a 30% Blended Rate	Equivalent Pre Income and Estate Tax Rate of Return Assuming a 50% Estate Tax
							30.00%	50.00%
1	60	60	47,000	0	5,000,000	10538.30%	15054.71%	30109.42%
2	61	61	47,000	0	5,000,000	882.63%	1260.90%	2521.81%
3	62	62	47,000	0	5,000,000	336.20%	480.28%	960.56%
4	63	63	47,000	1,057	5,000,000	189.97%	271.38%	542.76%
5	64	64	47,000	56,859	5,000,000	127.22%	181.74%	363.48%
6	65	65	47,000	114,820	5,000,000	93.44%	133.48%	266.96%
7	66	66	47,000	176,484	5,000,000	72.68%	103.82%	207.65%
8	67	67	47,000	240,534	5,000,000	58.77%	83.96%	167.91%
9	68	68	47,000	307,013	5,000,000	48.88%	69.82%	139.64%
10	69	69	47,000	376,005	5,000,000	41.51%	59.30%	118.61%
11	70	70	47,000	447,492	5,000,000	35.84%	51.21%	102.41%
12	71	71	47,000	521,647	5,000,000	31.36%	44.80%	89.60%
13	72	72	47,000	598,312	5,000,000	27.73%	39.62%	79.24%
14	73	73	47,000	677,348	5,000,000	24.75%	35.35%	70.71%
15	74	74	47,000	758,531	5,000,000	22.25%	31.79%	63.58%
16	75	75	47,000	828,773	5,000,000	20.14%	28.77%	57.54%
17	76	76	47,000	900,222	5,000,000	18.33%	26.18%	52.37%
18	77	77	47,000	972,093	5,000,000	16.76%	23.95%	47.89%
19	78	78	47,000	1,043,298	5,000,000	15.40%	22.00%	43.99%
20	79	79	47,000	1,113,198	5,000,000	14.20%	20.28%	40.56%
21	80	80	47,000	1,179,505	5,000,000	13.13%	18.76%	37.53%
22	81	81	47,000	1,241,540	5,000,000	12.19%	17.41%	34.83%
23	82	82	47,000	1,297,556	5,000,000	11.34%	16.20%	32.41%
24	83	83	47,000	1,345,504	5,000,000	10.58%	15.12%	30.24%
25	84	84	47,000	1,382,880	5,000,000	9.89%	14.14%	28.27%
26	85	85	47,000	1,411,073	5,000,000	9.27%	13.24%	26.49%
27	86	86	47,000	1,429,865	5,000,000	8.70%	12.43%	24.87%
28	87	87	47,000	1,432,871	5,000,000	8.18%	11.69%	23.38%
29	88	88	47,000	1,416,543	5,000,000	7.71%	11.01%	22.02%
<b>JLE</b> 30	<b>89</b>	<b>89</b>	<b>47,000</b>	<b>1,383,023</b>	<b>5,000,000</b>	<b>7.27%</b>	<b>10.39%</b>	<b>20.77%</b>
31	90	90	47,000	1,329,821	5,000,000	6.87%	9.81%	19.62%
32	91	91	47,000	1,247,029	5,000,000	6.49%	9.28%	18.55%
33	92	92	47,000	1,128,490	5,000,000	6.15%	8.78%	17.56%
34	93	93	47,000	968,222	5,000,000	5.83%	8.32%	16.64%
35	94	94	47,000	745,698	5,000,000	5.57%	7.96%	15.92%
36	95	95	47,000	427,087	5,000,000	5.34%	7.62%	15.25%
37	96	96	47,000	0	5,000,000	5.12%	7.31%	14.63%
38	97	97	47,000	0	5,000,000	4.92%	7.03%	14.05%
39	98	98	47,000	0	5,000,000	4.73%	6.76%	13.52%
40	99	99	47,000	0	5,000,000	4.56%	6.51%	13.02%
41	100	100	47,000	0	5,000,000	4.39%	6.28%	12.55%

**Assumptions:**

- Assumes insurance is issued with insurance company's best underwriting class of "preferred non-smoker" on both proposed insureds.
- Joint life expectancy of 30 years (JLE) is based on the 2001 CSO Mortality Table.
- Insurance death benefit is guaranteed by the insurance company as long as the scheduled premium is paid.
- Insurance cash values are based on the current crediting rate, and current insurance company mortality charges, expenses, and taxes, and are not guarantees or estimates for the future. Thus, actual cash value will either be more or less favorable than illustrated using current assumptions. In this regard, please refer to the insurance company illustration for a review of insurance values with maximum insurance company mortality charges, expenses and taxes, and minimum guaranteed crediting rate.
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