

Strategies Using Life Insurance Checklist



What is life insurance?

Life insurance is not only about protecting your survivors in the event of your death. Depending upon the type of policy you purchase, it can also enable you to meet specific life goals: retiring comfortably, paying for your child's education, accumulating wealth, and paying for estate costs. If you own a business, life insurance can even fund the purchase of your business interest when you die or decide to sell your business. In addition, life insurance can provide you with certain tax benefits. The following life insurance-related strategies may help you to achieve your various investment objectives.

Buy term and invest the difference

Individuals who buy cash value life insurance typically do so because it offers them a chance to accrue savings and protect loved ones simultaneously. On the downside, however, cash value life insurance involves higher premiums than term life insurance and may afford you little (or no) opportunity to manage and control your investment.

Depending upon your financial situation and goals, it may be more suitable to buy term life insurance and invest the difference between the term insurance premium and the cash value premium in an investment of your own choosing. Although a certain amount of risk will be involved, it may be possible for you to obtain higher returns on your own. In terms of risk, be aware that many investors who intend to invest the difference end up spending the difference. Also, term insurance does not last indefinitely.

Use cash value life insurance to save for education

Buying a cash value life insurance policy to save for a child's education may be appropriate when you desire the protection that life insurance offers and you also need funds for future college or private school tuition. When you die, your beneficiary will receive a death benefit from the policy; these funds can be used for ordinary expenses or to pay for a child's education, if necessary. In addition, there are two other ways you can fund your child's education with cash value life insurance. First, once your policy has accumulated a substantial cash value (usually after 10 to 15 years), you can withdraw all or part of the cash value to pay for your child's education (the amount you can withdraw depends upon your policy and the insurance company). Or, you can borrow funds from the insurance company, using your policy cash value as collateral.

Strategies Using Life Insurance: Checklist (Cont.)

Use cash value life insurance for retirement savings

Because cash value life insurance has both investment and protection components, you can use cash value life insurance to save for your retirement in addition to protecting your survivors. Here's how this strategy works. When you purchase a cash value life insurance policy, cash value begins to grow tax deferred. When you retire, you can withdraw or borrow against some or all of your policy's accumulated cash value (potentially free from income tax) if you need the money to supplement other retirement income or savings. When you die, any remaining death benefit may be payable to your beneficiaries.

Consider life insurance when planning your estate

A comprehensive estate plan will probably make use of life insurance. The proceeds from a life insurance policy will ensure that your survivors have necessary cash immediately following your death to pay for day-to-day living expenses and estate costs (such as bills and taxes). In addition, because life insurance can be used as a vehicle for making charitable donations, you can accomplish your philanthropic wishes and reduce your estate and gift tax liability at the same time. Life insurance and estate planning can involve complex issues, so it's wise to get expert advice if you're considering this possibility.

Fund your buy-sell agreement with life insurance

If you own a business, you can use life insurance to fund a buy-sell agreement, which is a formal agreement that spells out how a business interest will be transferred if an owner dies or decides to sell his or her interest. There also are other business applications for life insurance; some examples include insuring a key employee, providing insurance as an employee benefit, and funding split dollar arrangements or qualified retirement plans.

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Using withdrawals and loans on a life insurance policy may reduce the policy's death benefit and failure to repay the loan may result in a taxable event.

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