Creative

wealth maximization strategies*

2016 / V022016

Conceptually, whole life insurance can be thought of as a financial instrument designed to accumulate and deliver cash for one or more yet-to-be determined future events. The ultimate future event is an insurance payment at the death of the insured. But during one's lifetime, the combination of cash values and insurance in a whole life policy is uniquely suited to address other events as well.[1,2,3]

— **In the event of an accident or disability** to the insured, a waiver of premium rider can guarantee the benefits and accumulation of cash values.

— **In the event of an emergency or opportunity,** cash values are liquid, and may be distributed either as withdrawals or loans.

— **In the event of a temporary income disruption,** cash values may be used in lieu of premiums to keep the policy in force.

— **In the event of a long-term care situation,** contract provisions may authorize the distribution of a portion of the insurance benefit prior to death, sometimes as a monthly income.

— **In the event of steady financial progress,** cash values, because of their consistent, low-risk returns, can grow to constitute the conservative allocation in a diversified portfolio.

— **In the event of a long, healthy life,** cash values may be a source of retirement income, either as an annuity, or a flexible stream of payments. In addition, the guaranteed death benefit can be a "permission slip" to spend down other assets.

— **In the event of financial abundance,** a life insurance benefit can be used to facilitate estate plans, leave bequests to charity, or multiply wealth for future generations.

Best of all, owners of whole life insurance don't have to commit policy assets to any one of these events unless and until they occur. They don't have to wait until 59½ to avoid tax penalties, begin required distributions at 70, or limit contributions based on adjusted gross income. Once a whole life policy is funded, policy owners have the luxury of using it where it can be most effective.

A Creative Application: $71,000/yr for 10 yrs.

Financial professionals who understand whole life insurance as a guaranteed cash reserve for future events can develop some unique applications. Using an illustration from a highly-rated life insurance company, a veteran life insurance professional produced the following scenario:

A 34-yr-old male non-smoker obtains a $2 million whole life insurance policy at preferred rates. The proposed contract includes a disability waiver of premium, an accelerated benefit rider for terminal illness, and the option to purchase paid-up additions to the base policy with "extra" premium deposits.

For 10 years, the policy owner makes annual premium payments of $71,000. This is about $45,000 *above* the base premium, and is intended to accelerate the growth of the cash

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* The title of this newsletter should in no way be construed that the strategies/information in these articles are guaranteed to be successful. The reader should discuss any financial strategies presented in this newsletter with a licensed financial professional.

Pub 6357 (2/16)
2015-15396 Exp 12/2017

CREATIVE "EVENT INSURANCE"

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values while staying within the guidelines for favorable tax treatment. Using a dividend rate in keeping with historical performance, here are some projected values:

At 10 years (age 44)...

TOTAL PREMIUMS	CASH VALUE	DEATH BENEFIT
$710,000	$797,154	$4,085,837

Keep in mind these numbers are projections, based on regulated assumption parameters; actual results will vary. But note that cash value exceeds premiums paid by $87,000 (which calculates to a compound annual growth rate of 2.09%), while the insurance benefit has doubled.

From this point forward, the policy owner makes no additional premium payments. For the next 26 years, dividends and existing cash values maintain the insurance benefit and increase the accumulation. Without adding another dollar, the cash values quadruple, and the insurance benefit exceeds $5 million. The annualized CAGR for the cash values rises to 4.86%.

At 36 years (age 70)...

TOTAL PREMIUMS	CASH VALUE	DEATH BENEFIT
$710,000	$3,197,299	$5,257,872

At age 70, the policyowner initiates a stream of withdrawals and loans to provide additional retirement income. For the next 25 years, he withdraws $173,617 each year. Properly accessed under current tax law, this income is not taxable.

Should the insured die during this withdrawal phase, beneficiaries will receive a net death benefit (i.e., the amount remaining after satisfying any outstanding loans) of somewhere between $4 million and $1.3 million, depending on the insured's age at death. If the insured lives longer than 95, the policy will endow at 99, paying the remaining cash value as a death benefit.

If the insured lives to 95, this is a simplified lifetime summation of the transaction:

Total Outlay, Yrs. 1-10:	**$710,000**
Total Distributions, Yrs. 36-70:	**$4,514,042**

This summary requires some perspective. A total distribution more than six times premiums sounds impressive, but the multiplication is due in large part to the number of years involved: 36 years of accumulation, and 25 years of gradual distribution. Any financial instrument with a CAGR around 5% could produce similar projections.

Squirrel it away...

The illustration primarily is a representation of how ten years of premiums paid at an early age can plausibly deliver 25 years of tax-free retirement income – with guarantees. If the insured becomes disabled, the plan can still complete. If the insured dies, an even larger amount will be given to beneficiaries. If the funds are needed before 70, they are available without penalty. What other financial instrument provides this type of "event insurance?"

"Okay, but who would (or could) do this at 34?"

This scenario might apply to anyone who receives a large sum of money, either as a one-time event or a brief period of high earnings. It could be a young entrepreneur who sells a business, an athlete or entertainer with a brief window of high income, a broker who occasionally collects a sizable commission.

The conventional wisdom of maximizing contributions to pre- or post-tax qualified retirement plans doesn't apply to these irregular chunks of money. Contribution limits won't allow $71,000 annual deposits in a 401(k). While other options may have greater growth potential, allocating ten years of premiums from a period of high earnings to a whole life policy ensures these temporary "bursts" of prosperity can become lifetime assets.

On a lesser scale, the same approach could be used to incrementally "insure" retirement. A 35-yr old female buys a $2 million term insurance policy with conversion privileges. As her savings grow, she systematically converts portions of the term policy to whole life, using 10-year payment schedules for each conversion. For the high earner or the just-getting-going, this strategy can…

- Lay a base of conservative, liquid assets under other retirement and accumulation plans
- Establish a source of tax-free retirement income
- Provide guarantees so that some retirement assets will be available even if a disability disrupts future earning potential.
- The annual premiums of $71,000 in the first example may seem outside-the-box for the average American household, but it demonstrates the breadth of possibilities in whole life insurance for creative thinkers.

In the event of whatever comes next, do you have a whole life insurance policy on standby?

[1] All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims paying ability of the issuing insurance company.
[2] Dividends are not guaranteed. They are declared annually by the company's Board of Directors.
[3] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½, any taxable withdrawal may also be subject to a 10% federal tax penalty.