Is Life Insurance for You?

Life insurance isn't for everyone. It's typically for thoughtful, deliberate planners…

1. Who have a pressing concern about hardships, heartaches and conflicts that are likely to happen when they are no longer around,
2. Who make it a priority to spend the time and money, to put their affairs in order; and
3. Who are still healthy and young enough to qualify for life insurance at a reasonable price[1].

These are parents and spouses who are worried that if they don't wake up tomorrow…

- Their spouse /partner, children and other dependents won't have the means to continue their accustomed lifestyles.
- Their family won't have the income to send their children to their school of choice (without causing undo stress on other family members).
- Their spouse and children won't have the resources to provide the level of care and attention that they want for their children with behavioral health disorders and other special needs.
- Their family won't have the cash to pay estate taxes currently as high as 40% of their estate greater than their lifetime exemption ($15 million /$30 million for married couples in 2026).[2] These taxes are due and payable within nine months after death. To get the funds, the family may be forced to:
    - Liquidate concentrated stock when the market is down.
    - Sell the farm and farmland (possibly at fire-sale prices) that's been in their family for multiple generations.
    - Sell their business to competitors or minority shareholders.
    - Sell real estate and family heirlooms intended for heirs.
- Their retirement assets may be exposed to income, estate, and inheritance taxes, leaving their heirs with less than 40% of their current value.
- Their retirement lifestyle and long-term-care expenses will erode the legacy they wanted for children and grandchildren.
- Their children from a prior marriage will feel "cheated" by the inheritance left to the surviving spouse (or vice versa) and the relationship among blended family members will strain and deteriorate.
- Their surviving family will be strapped and burdened with outstanding debt and mortgages.

These are business owners who are worried that when they pass…

- Their spouse and children can't run their business; they simply won't have the time or expertise to do so. The business may be liquidated for pennies on the dollar, sold to minority shareholders or sold to a competitor at a lower than market price.
- If they leave the family business to the children working in the business, there won't be enough other assets for other children to get their "fair" share (especially after estate taxes are paid).
- If they leave the family business to all children equally, their children working in the business will bear an unfair burden, causing long-term descension among family members.

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[1] *Life insurance is generally available at reasonable rates for healthy individuals up to age 82.*

[2] *Beginning in 2026, the federal lifetime estate and gift tax exemption is $15 million per individual ($30 million for married couples), indexed for inflation going forward.*

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These are business owners who are concerned that if their business partner or key employee dies unexpectedly…

- Their business will suffer. They won't have the money to hire a qualified replacement and repay business debt, all while keeping up with mounting operating expenses.

- Their deceased partner's spouse may want to step in and make business decisions or expect to be added to the business payroll.

Why Life Insurance?

Life insurance is often the preferred method for mitigating the headaches, hardships and conflicts that stem from the death of a spouse, parent, business owner or key person. Compared to other legacy investment alternatives, permanent life insurance offers these advantages:

- Death benefits provide immediate liquidity at the time when it is needed most…to pay estate settlement costs and inheritances. This infusion of cash not only prevents the forced sale of illiquid assets, such as a closely held business or real estate; but it also mitigates the potential for the untimely liquidation of liquid assets such as marketable securities. In other words, life insurance is "self-completing" and provides a "time hedge" for other assets to grow and estate tax "freeze" strategies to work.

- Premiums provide significant leverage in early policy years (e.g., policy death benefits may be ten times greater than the premiums paid) and very competitive after-tax death benefit rates of return at life expectancy (LE) [or joint life expectancy (JLE) in the case of survivorship life insurance] and beyond.

- The death benefit is known and predictable and for healthy insureds from an investment perspective always "in-the-money".

- Life insurance makes the equitable treatment of heirs much easier to achieve in the estate settlement process – especially for children who are not actively involved in a family business or for children with special needs.

- Life insurance cash values grow tax deferred.

- The death benefit proceeds (if the policy is positioned properly) are income-tax-free, estate-tax-free and GST-tax-free.

- The death benefit proceeds are paid in cash; no transfer costs, commissions or management fees are subtracted before they are paid to the beneficiaries.

- Life insurance carriers are subject to meaningful government regulation and oversight by independent rating agencies. Furthermore, they employ conservative capital structures and strategies, and invest primarily in high-grade fixed income investments, which are held to maturity. The risk of a life insurance carrier defaulting on its obligations is significantly lower as a result. The same does not always hold true for other assets.

Note: All of the above statements are generally true; however, the tax benefits of life insurance have certain limitations which under the wrong set of circumstances can cause the tax benefits mentioned to be lost. Please refer to the important disclosures below and discuss your situation with your tax or legal advisor.

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Important Disclosures

For federal income tax purposes, life insurance death benefits are generally paid income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e., the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

Distributions from life insurance policies prior to the death of the insured may be subject to income taxation depending on the type of distribution (i.e., withdrawal, surrender, loan, or dividend), the life insurance policy duration at the time of distribution, and effective tax law at that time. These distributions may also reduce policy cash values and death benefits. Withdrawals and other distributions from non-Modified Endowment Contract (non-MEC) policies in the first 15 years may be taxable to the extent they occur in conjunction with (or during the two years immediately prior to) a reduction in benefits. After 15 years, withdrawals and other distributions up to the life insurance policy cost basis are not taxable.

Life insurance policy loans are not taxable for a non-MEC policy provided that it remains in force until the death(s) of the insured(s). Withdrawals, policy loans and other distributions from a MEC policy are subject to other rules and are generally taxable as "income first." If prior to the death(s) of the insured(s) the policy (MEC or non-MEC) is surrendered or lapses with an outstanding policy loan balance, the policy owner will be subject to income taxes to the extent the cash surrender value plus the amount of the outstanding loans exceeds the policy cost basis. Withdrawals, policy loans, and other distributions will reduce policy values and may reduce death benefit.

Life insurance policies include certain non-guaranteed elements, including premiums, credited interest rates, values, charges, etc. Non-guaranteed elements are not guaranteed by definition. As such, life insurance carriers reserve the right to change or modify any non-guaranteed element. This right to change non-guaranteed elements is not limited to a specific time or reason. Life insurance products are issued by unaffiliated third-party insurance companies. Guarantees are based on the claims-paying ability of the issuing insurance company.

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