

IT'S TIME TO REVIEW YOUR INSURANCE

September is National Life Insurance Awareness Month.

Provided by Thomas R. Lovell, MS, CFP

When was the last time you looked at your life insurance coverage? Why not do it now? September is as good a time as any - in fact, this is National Life Insurance Awareness Month. The non-profit Life and Health Insurance Foundation for Education (LIFE) wants to awaken Americans to the need for life insurance, and its remarkable utility as an estate planning and tax-saving tool.

What? You don't have insurance? You're not alone. According to LIFE, 68 million adult Americans have no life insurance coverage. (That means about 30% of us.) In September 2008, a LIFE poll found that 27% of adult Americans would be willing to cancel their life insurance coverage to save money in hard times.^{1,2}

Watch a life insurance commercial, and you're likely to see a young or maturing family. However, this is hardly the only context in which life insurance matters.

- It can be a vital part of a financial strategy for empty-nesters who want to retire to a comfortable lifestyle.
- A buy-sell agreement funded with life insurance allows a surviving business owner to buy the company interest of a deceased owner at a previously established price. Key-person insurance can aid a business if a core employee passes away. (It is possible for a business to fund a buy-sell agreement and key-person insurance with pre-tax dollars, making these moves truly tax-efficient.)

Your only way to send money to the future on a tax-free basis. Some people buy a life insurance policy and name a son or daughter as a beneficiary. This thoughtful decision has one little downside. If you own the policy, the death benefit is included in your taxable estate.³

You have an alternative here. You don't have to own your life insurance policy. Your children (or other beneficiaries) can own it. If they do, they will receive a large payout free from federal estate and income taxes when you pass away.³

You can make gifts to your kids to acquire the insurance, and your kids can pool their money and buy policies on Mom and Dad. The more kids you have, the less the premium burden. Not only that, some policies can build up cash value (tax-free growth within the policy).

Here's another way to remove life insurance proceeds from your taxable estate: an irrevocable life insurance trust. You can have the trust own the policy, and you can periodically fund the policy through gifts made to the trust. The trust will get the proceeds from your policy when you die, and those proceeds can be distributed

according to your wishes - they can go to your loved ones or charity, they can be used to pay estate taxes.³

A way to help you as you plan to build wealth. There are life insurance policies with tax-advantaged savings features that offer you the potential to earn interest based on the gains of an equity index. Others permit you to direct a percentage of your premiums to investment sub-accounts which may generate tax-free earnings. These policies can be useful when it comes to business continuation and employee benefits, retirement planning, education planning and estate planning.

Insuring yourself may be cheaper than you think. Let's say you just want term life, just basic life insurance without the capability to accumulate cash value. Well, good news: the Insurance Information Institute found that premiums for standard-risk term life insurance fell 50% between 1994 and 2007, corresponding to reduced mortality rates.⁴ Not only that, the Institute says term insurance premiums have fallen by more than 4% per year since 2000. (For the record, premiums on cash value policies are about 5% lower today compared to a decade ago.)⁵

Are you adequately insured? Are you using life insurance smartly? Life insurance is like the Swiss Army knife of estate planning: there are so many ways you can use it as you plan to pursue your goals. Whether you simply need to insure yourself or need to protect your estate through sophisticated planning, September is the month to think about life insurance - and all the ways it can potentially help you financially.

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Citations.

¹ lifelifehappens.org/content/view/full/655/479/ [9/1/09]

² lifelifehappens.org/content/view/full/522/479/ [9/18/08]

³ wellsfargoadvisors.com/financial-services/estate-planning/estate-taxes.htm [9/3/09]

⁴ msnbc.msn.com/id/18926723/ [5/29/07]

⁵ registeredrep.com/wealthmanagement/insurance/people_living_longer_0819/[8/19/08]