Life Insurance - The Whole Story

Permanent Life Insurance referred to from this point on as (PLI) is a versatile and powerful financial tool. In addition to the death benefit, there are many living benefits as well.

I view life insurance not as a NEED issue, but a WANT issue. Knowing what you "want" to happen, an amount of life insurance can be calculated in order to make sure that what you WANT to happen WILL happen for yourself and those you love and care about.

Owning life insurance is a voluntary decision that carries with it an emotional component not found with other financial products. Once the financial aspect is balanced with the emotional, life insurance can be seen as a solution to a financial objective instead of bad-tasting medicine or a necessary evil. Let's look at exactly how life insurance works.

There is the minimum one can pay for a given amount of life insurance - determined by the insurance company, and the maximum one can pay - determined by The Government. I find it interesting that the government cares how much money we put into life insurance.Where the premium falls between the minimum and maximum will determine the benefits the policy will provide.

In the 1980's the government "drew the line" determining the maximum contributions for a given amount of coverage while still allowing tax-favored growth and unrestricted access to the cash value.

Policies funded above this line are classified as a "Modified Endowment Contract" or "MEC"- meaning these contracts will be treated like Qualified Plans with many of their restrictions and penalties.

Remember that qualified plans do two things: they postpone both the tax and the tax calculation.

The lowest premium one can pay represents Term Insurance, which provides one benefit – a death benefit. For us to consider putting more money into a life insurance contract than the minimum, we need to know what benefits are available for our excess contributions. In any financial product we would use to accumulate money over time, a major objective would be to maximize benefits. If we could design a financial product to store money for future use, what benefits would we build into such a product? Here is my list:

- Tax Deferred Growth
- Tax-Free Distribution
- Competitive Return
- High Contributions
- Additional Benefits
- Collateral Opportunities
- Safe Harbor
- No Loss Provisions
- Guaranteed Loan Option
- Unstructured Loan Payments
- Liquidity, Use, and Control
- Deductible Contributions

"Additional Benefits"are situational benefits such as Disability Completion and Protection from Lawsuits, Creditors, and Bankruptcy.

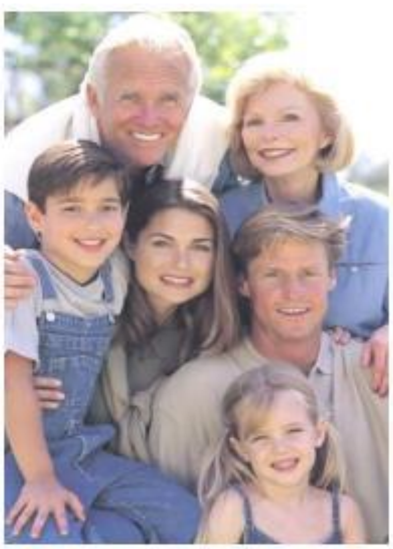
Every financial product provides some of these benefits. PLI provides all of these benefits except deductible contributions.

An overlooked additional benefit of PLI is that the death benefit provided allows you to reduce or eliminate the expense of term insurance premiums, which can be saved at interest.

The same is true of the tax advantages of PLI compared to financial products that produce currently taxable earnings. Term premiums and taxes paid on growth earned in a taxable environment are classic wealth transfers.

Remember - whenever we transfer a dollar that we didn't have to transfer, we not only lose that dollar but also everything that dollar could have earned for us had we been able to keep it. This is called Opportunity Cost. PLI allows us to eliminate some of these transfers.

The true value of PLI isn't always obvious until we see it from a macro-economic "big picture" point of view. The value isn't just what the life insurance contract provides, but also the unnecessary wealth transfers avoided plus their opportunity costs.



Another benefit of PLI is that it functions as a Permission Slip, allowing you to do things with your other assets you otherwise might not choose to do- because unlike term life insurance, PLI can continue to provide benefits beyond the premium-paying years. For example…

At retirement, you will have the option to spend down your other assets while still leaving your heirs the inheritance you hoped to provide.

Having "paid up" life insurance allows us to more freely enjoy the fruit of our lifetime labor with peace of mind knowing that the death benefit guarantees that your legacy will be realized while at the same time providing you a higher retirement income.

Additionally, the PLI death benefit available to a retiree's spouse may allow the retiree to take a higher retirement income option from their pension, knowing that the life insurance will help complete the income needs of the surviving spouse.

Another option for those 62 and over is the use of a "Reverse Mortgage" or similar strategy to subsidize retirement income. The life insurance benefit allows one to spend home equity while keeping the value of their home intact.

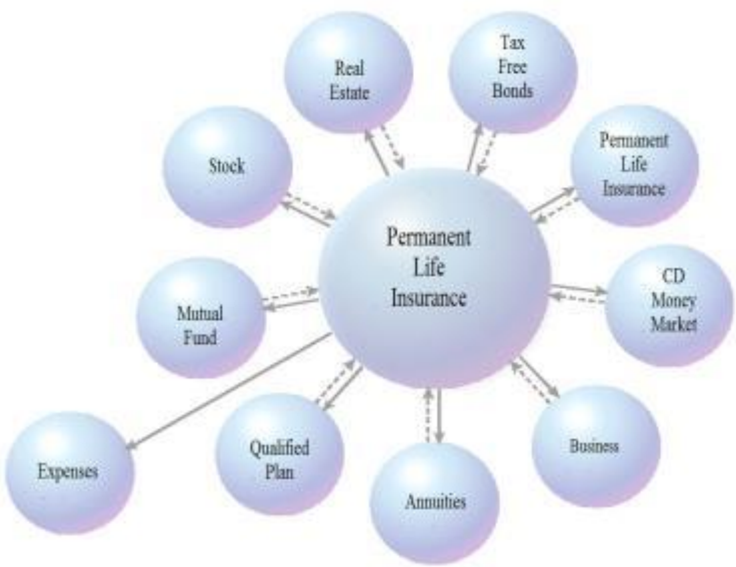
Using a golf analogy, PLI is equivalent to the Putter- the one club used on every hole. The putter represents accuracy and efficiency, not distance. Every golfer knows the saying "Drive for show, Putt for DOUGH!"

Even so, the club that usually receives the most attention is the Driver. The driver represents distance / rate of return. Most financial discussions focus on the club that hits the ball the farthest - which also involves greater risk.

Both the Driver and the Putter are important for playing your best "financial golf". With this in mind, we see that PLI's best use is inconjunction with your other assets, not in competition with them.It's not PLI, it's PLI and. Let me illustrate this with a garage analogy.

PLI is for your money what a garage is for your car. When parked in the garage, your car is in the safest environment, protected from the elements. When you need to drive your car, you take it out of the garage.

When you're finished, you put it back in the garage for safe keeping until the next time you need to drive it. It would be ridiculous to suggest you never take your car out of the garage. PLI works the same way.



While parked in your "PLI Garage", your money is enjoying all the benefits we looked at earlier, safe from the "financial elements" and risk. When you want to "take your money for a drive"to take advantage of opportunity or investment, you move money from your policy to another asset or financial product.

You leave your money in this new position until you decide to put the money back in The "garage" to keep it safe until you need to "drive" it again. Just as you don't always have to leave your car in the garage, you don't always have to leave your PLI cash values in the policy.

PLI's INTERNAL rate of return is measured by cash value. But more importantly, PLI's EXTERNAL rate of return is measured by the opportunities created due to the liquidity and access to the cash value.

PLI may be used to fund your Private Reserve Strategy. The Private Reserve Strategy is designed to help develop or improve one's financial position by helping them avoid or minimize unnecessary wealth transfers where possible, and accumulate an increasing pool of capital that provides accessibility and control. A fundamental key to the Private Reserve account is that the money in the account must be accessible through collateralization.