



Life Insurance:

FACTS, FICTIONS, AND MYTHS



Life insurance is one of the most misunderstood products in the financial industry. Life insurance policies can provide benefits when we die, and while there are myths about life insurance, it's important to understand its potential benefits.

CHOICES WHEN IT COMES TO LIFE INSURANCE

Life insurance can provide financial security and benefits to your beneficiaries. If that's all you know and it's enough for you to purchase a policy, great. If that's not enough, then read the facts about the ways today's modern life insurance can be beneficial while you're alive. Perhaps that new knowledge will debunk the fictions and myths you've heard and convince you to add a policy to your portfolio.



Term Life Insurance:

Term life insurance is a simple, straightforward insurance policy. The policyholder pays regular premiums. If they die while the policy is in effect, their beneficiary receives a death benefit. The defining factor when it comes to this type of insurance is the “term” - how long the policy is active. Term life policies expire after a set number of years. Additionally, term life insurance is relatively inexpensive, so young families looking to obtain coverage will find this option provides peace of mind while fitting within their budget.



Permanent Life Insurance:

Permanent life insurance is designed to last from the time of purchase through the remainder of your life. It provides a death benefit to a beneficiary and an investment component allowing the policyholder to accumulate a cash value. The cash value grows tax-deferred and the policyholder has the option to take loans without limitations. Permanent insurance policies are typically more expensive because they last from the time you buy into the policy until death, as long as you pay the required premiums.



FACTS: COMMONLY KNOWN BENEFITS OF LIFE INSURANCE

Family protection:

It's pretty well known that life insurance pays a predetermined death benefit to cover your debts and funeral expenses as well as provide a financial allowance to loved ones. Term insurance is typically a lower-cost option geared toward young families with children; however, the benefits of more expensive permanent insurance to cover you as you age shouldn't be overlooked.

Did you know: Permanent insurance affords you the option to take out a loan to pay for expenses like college, medical bills, lost retirement income, long-term care costs, and even estate taxes.¹

Did you know: A buy-sell agreement is a must-have for any succession business plan by providing funds to buy out the deceased's portion of the business ownership.²

Small business protection:

Think beyond business insurance. Life insurance policies may offer a loan feature that can be used for expenses, but it's important to understand the potential risks involved, such as the impact on your home's collateral. This provides a safety net for your family in the event of an untimely death, which could potentially lead to the loan becoming due. A life insurance policy can provide financial support to your employees and help pay off debts, which could potentially help your business continue operations after your death.

Charitable planning:

If you have dreams of supporting your favorite nonprofit in an impactful way, you can set up a charitable rider naming your charity as the beneficiary, and your life insurance's guaranteed death benefit can be a potential endowing tool. This is a way to give more than you may have typically been able to while alive; for the recipient, there are no federal or state taxes or fees coming out of the amount given.

Did you know: You can go one step bigger and set up a policy donation: the charity will receive the entire face amount of the policy upon your death. By gifting a policy, you may be able to reduce your taxable estate, which could potentially lower your estate taxes for upper-income taxpayers.³

Did you know: There are a few instances when probate will rear its ugly head 1) the primary beneficiary is deceased, 2) the beneficiary is under the age of 18 and can't take ownership of benefits, and 3) there is no named beneficiary in which case the death benefit becomes part of the estate for the courts to manage.⁴

Bypass probate court:

The hassle of probate proceedings can be timely and costly especially when loved ones are coping with family loss. Having life insurance with a named beneficiary will help your inheritors avoid probate and receive the death benefit payment quickly.

Pass on income-tax-free to beneficiary:

Death and taxes aren't guaranteed when you have a life insurance policy because life insurance allows the death benefit to transfer income-tax-free to beneficiaries. Death benefits are typically not subject to income tax, similar to other investments such as IRAs, annuities, and qualified retirement plans.

Did you know: A policy that doesn't pay the death benefit right away could be subject to taxes on the interest earned during the time-lapse. Additionally, a high-value death benefit in your policy added on top of your full estate could be a factor when facing estate taxes.⁵



ARE YOU INSURING YOUR MOST VALUABLE ASSET?

With a nearly 106-hour work-week and a six-figure annual rate, moms may be the most valuable workers in the country.

According to LIMRA's 2023 Insurance Barometer Study, only 49% of women have life insurance, compared to 55% of men.¹

In 2019, 41.2% of mothers were the sole or primary breadwinners for their families, up from 36% in 2000.²

According to Salary.com, the median annual "salary" of a stay-at-home mother in 2020/2021 was valued at \$184,820 (a \$6,619 increase from pre-pandemic).³

On average, women live five⁴ years longer than men, yet they typically buy less life insurance coverage and save less for retirement than their male counterparts.⁵

FICTIONS: UNCOMMONLY KNOWN BENEFITS OF LIFE INSURANCE

Life insurance is an asset class:

Properly funded permanent life insurance policies build cash values that can be tapped into for use at retirement or if an emergency arises. The cash value can potentially grow over time, depending on the number of years premiums are paid and the internal rate of return offered by the insurance carrier.¹¹

Loans you don't have to pay back:

Unlike bank loans or mortgages, you do not have to pay back the loan you take when borrowing from a permanent life insurance policy. However, when you borrow the money based on your cash value, the amount you borrow may reduce the death benefit from your policy's life insurance portion.¹²

A good option for retirement income:

Unlike other retirement funds, life insurance has no contribution limits, the cash value grows tax-deferred, distributions are tax-free, and there are no minimum required distributions.¹³

Terminal illness protection:

Your insurance policy can help manage the cost of medical care, potentially reducing the financial burden associated with it. If you qualify by having less than 12 months to live, you can use your policy to 1) access benefits with an accelerated death benefit rider, 2) take out a loan, or 3) buy additional coverage with a guaranteed insurability rider.¹⁴

Riders that pay chronic and long term:

With a medical diagnosis and the proper rider to your life insurance policy, you can gain access to your death benefit early to pay for expenses. The chronic illness rider provides a fixed premium payment with the cash indemnity derived from your death benefit. The long-term care rider offers the accelerated death benefit plus an extended death benefit should you exhaust the first.¹⁵

College bills covered:

Permanent life insurance is an unconventional and often underused way to help pay college tuition. The value of your life insurance policy is not part of the financial equation FAFSA uses when it comes to funding the college experience. So, while you're paying into your policy, a portion is covering your death benefit, and a portion is growing a tax-deferred cash value waiting for you to borrow against to supplement your college funding strategy.¹⁶

Protect your beneficiaries:

If you have a beneficiary who is not proficient in money management, a spendthrift provision could be a consideration for their future protection. This provision dictates how much and when a beneficiary receives all payments and names a trustee to oversee the distributions. The money in the trust is protected from debt collectors and lawsuits for added protection.¹⁷

Special needs coverage at any age:

For those with disabled children, a permanent life insurance policy can provide financial support and security for your child after your death. People with disabilities generally can't have more than \$2,000 of assets in their name, or they risk losing essential health services, so it's crucial to set up a special needs trust. This may help your child maintain eligibility for government assistance.¹⁸



MYTHS: TWO-CENT ADVICE THAT DOESN'T ADD UP

I have life insurance through work, so I don't need my own:

Maybe it's enough, but depending on your family situation, you may need more to cover things like estate taxes and provide for your family when you're gone.

I'm single with no family so I don't need it:

Single or not, expenses will still occur, so you need to plan accordingly: funeral costs can be in the thousands, debts need to be paid upon death, and medical bills add up quickly.

I'm better off just investing my money:

You're risking a lot with no guarantee in the stock market as well as accepting tax implications that don't come with insurance – both of which fall on the shoulders of those left behind.

Insurance is too expensive:

Consider that most people spend more to insure their “things” than to insure their life and family. It's important to know that some coverage is better than none, it's less expensive the earlier you buy it, and we never truly know what tomorrow will bring.

It's not available for older people:

Even if you're over 60, life insurance is a smart asset for your portfolio. As age increases, so do many expenses, which is why it's important to have a plan to pay for estate debts and funeral expenses and perhaps leave something to your heirs.

Health problems mean I'm uninsurable:

With some exclusions, most people with an illness can still be insured; it just might be a bit costlier. If your condition is likely to require medical care, a policy can potentially help cover those costs, which could be beneficial for your savings.

SITUATION

HOW LIFE INSURANCE CAN HELP

Breadwinner

Life insurance can provide financial support to your family in the event of your death, which may help them manage their expenses.

Divorced parent

A policy could cover the support payments that a divorced parent makes.

Homeowners with a mortgage

A policy can cover mortgage payments, so your family doesn't have to move.

Someone with co-signed debt

Life insurance may provide financial support for student loans or other debts.

High-net-worth individual

A policy can provide funds for heirs to pay estate or inheritance taxes.

Someone wanting to provide an inheritance

If you don't have a lot of wealth, life insurance can provide a small inheritance to heirs.

Investor who has maxed out other retirement options

Insurance with a cash value component can provide a supplemental source of retirement savings.

People concerned with funeral expenses

Small life insurance policies can potentially help cover your funeral and final expenses, which could be a financial burden for your family.



If you're convinced the facts outweigh the fictions and myths, it's time to take the next steps.

Consider your family's needs and priorities when figuring out the amount of life insurance to purchase. Recognize that not all companies write all life insurance policies, so know the type of coverage you want before you begin comparing quotes. Gather your health and family history information before you start the application process and determine who you will name as beneficiaries (have on hand the Social Security numbers and birth dates of all parties). Finally, it's important to review all coverage options and how it will play into your financial portfolio with your financial professional before deciding which life insurance policy is right for you.



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