
General Purposes of Life Insurance

Life insurance is a unique asset that can be used to help solve some of life's perplexing financial problems.



Death Benefit Uses for Life Insurance

- **Create an estate:** Where time or other circumstances have kept the estate owner from accumulating sufficient assets to care for his or her loved ones, life insurance can help create an instant estate.
- **Pay death taxes and other estate settlement costs:** These costs can vary from a low of three to four percent to over 40 percent of the estate. Federal Estate Taxes are due nine months after death.
- **Fund a business transfer:** Business owners often agree to buy a deceased owner's share from his or her estate after death. Life insurance provides the ready cash to help finance the transaction.
- **Pay off a home mortgage:** Many people would like to pass the family residence to their spouse or children free of any mortgage. Often a decreasing term policy is used, which decreases in face amount as the mortgage balance is paid down.
- **Protect a business from the loss of a key employee:** Key employees are difficult to attract and retain. Their untimely death may cause a severe financial strain on the business.
- **Replace a charitable gift:** Gifts of appreciated assets to a charitable remainder trust can provide income and estate tax benefits. Life insurance can be used to help replace the value of the donated assets. Proceeds from life insurance policies can also be paid directly to a charity.
- **Pay off loans:** Personal or business loans can be paid off with insurance proceeds.
- **Equalize inheritances:** When the family business passes to children who are active in it, life insurance can help give an equal amount to the other children.

General Purposes of Life Insurance

- **Accelerated death benefits:** Federal tax law allows a “terminally ill” individual to receive the death benefits of a life insurance policy on his or her life income tax free. Such “living benefits”, received prior to death, can allow a person to pay medical bills or other expenses and help maintain his or her dignity by not dying destitute. If certain conditions are met, a “chronically ill” person may also receive accelerated death benefits free of federal income tax.¹

Existing life insurance policies should be reviewed to verify that policy provisions allow for payment of such “accelerated death” benefits.

Other Uses for Life Insurance

While life insurance products are primarily used for death benefit protection, they are also used for long-term accumulation goals.

- **College fund for children or grandchildren:** Cash value increases in a policy on a minor’s life (or the parent’s life) can be used to help fund college expenses.
- **Supplement retirement funds:** Many current insurance products provide competitive returns and may be a prudent way of accumulating additional funds for retirement.

Available cash values may also serve as an “emergency reserve,” if needed, or a source of loans, since life policies frequently include features permitting borrowing against these cash values²

¹ The discussion here concerns federal income tax law; state or local tax law may vary.

² A policy loan or withdrawal will generally reduce cash values and death benefits. If a policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income in the current year, to the extent of gain in the policy. Policies considered to be modified endowment contracts (MECs) are subject to special rules.

Disclosure Notice

The information that follows is intended to serve as a basis for further discussion with your financial, legal, tax and/or accounting advisors. It is not a substitute for competent advice from these advisors. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney. The application of other concepts may require the guidance of a tax or accounting advisor. The company or companies listed below are not authorized to practice law or to provide legal, tax, or accounting advice.

Although great effort has been taken to provide accurate data and explanations, and while the sources are deemed reliable, the information that follows should not be relied upon for preparing tax returns or making investment decisions. This information has neither been audited by nor verified by the company, or companies, listed below and is therefore not guaranteed by them as to its accuracy.

If a numerical analysis is shown, the results are neither guarantees nor projections, and actual results may differ significantly. Any assumptions as to interest rates, rates of return, inflation, or other values are hypothetical and for illustrative purposes only. Rates of return shown are not indicative of any particular investment, and will vary over time. Any reference to past performance is not indicative of future results and should not be taken as a guaranteed projection of actual returns from any recommended investment.