

Why Life Insurance Matters

Besides the death benefit, it may also help you financially during your life.

Provided by **JOSEPH A. GARAFANO, CFP®**

As a recent Bankrate.com article noted, 43% of Americans have no life insurance. Some view it as optional; some have simply procrastinated when it comes to buying a policy. Others believe that they can't afford it.¹

In reality, life insurance is cheap today. If you just want term life coverage – essentially life insurance that you “rent” for X number of years – you may find it quite affordable wherever you live. A little comparison shopping online reveals that a 40-year-old non-smoking woman in good health in Milwaukee would pay premiums of just \$385-400 a year for a 20-year level term policy with a \$500,000 death benefit. (She would have more than a dozen providers to choose from.)²

If you choose permanent life insurance rather than term life, new possibilities emerge. In addition to a benefit for your heirs at your death, an insurance policy capable of building cash value gives you more capability to address financial needs during your lifetime.

Permanent life insurance can let you build cash value. The premiums on a whole, universal or variable life policy are higher than for a term life policy, but there is a reason for that – as you pay into one of these policies, the policy accumulates cash value. That cash value grows without being taxed.³

In all probability, the cash value will continue to be available as long as you live. Insurance companies have gone under, but the reality is that very, very few do. They guarantee the death benefit and the viability of the policy as long as you keep making the premium payments.

If you need a loan someday, a Cash value life policy gives you an option. You can borrow against the cash value once you have funded the policy with a sufficient amount of premiums. (You can even tap the cash value to pay the premiums, if you like.)^{3,4}

The terms of such a loan from your policy may be much better than loan terms a bank could offer, and will certainly be preferable to the terms of a predatory lender. Taking a loan against your insurance policy also involves much less red tape and fine print than arranging a loan from a workplace retirement plan. One risk: if you die while the loan against the policy is still outstanding, the remaining balance may be deducted from the death benefit, and it will also be fully taxable.⁴

Many of these policies come with degrees of flexibility. You may be able to transfer some of the cash value into another insurance product, with the death benefit unaffected.

The death benefit, of course, can do much to preserve your loved ones' quality of life. Life insurance death benefit proceeds are almost never taxed (only under rare circumstances does the IRS count them as gross income). So a permanent life policy will give your heirs money to address funeral and burial expenses and possible estate taxes, and the funds could provide them with part of their inheritance.⁵

Cash value life insurance also means permanent coverage, as long as the policy is in force. The death benefit will not be readjusted or diminished if you fall ill, and if you buy a policy in your thirties or forties, you save money compared to those who purchase a policy after 50.

Permanent life insurance is also highly useful in estate planning. There are all manner of trusts used in conjunction with permanent life policies, such as irrevocable life insurance trusts (ILITs), special needs trusts, spendthrift trusts, special living trusts, charitable remainder trusts, and more. Often, a trust can be named as beneficiary of a permanent life policy, an estate planning step toward an eventual financial benefit to heirs.⁶

First and foremost, life insurance matters for its death benefit – but those considering it should not overlook its financial utility in other situations during the course of life.

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Citations.

1 - bankrate.com/financing/insurance/how-painful-is-the-life-insurance-talk/ [9/15/15]

2 - tinyurl.com/oszbry4 [9/16/15]

3 - investopedia.com/terms/c/cash-value-life-insurance.asp [9/16/15]

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5 - tinyurl.com/p266dp4 [6/4/15]

6 - dailyfinance.com/2015/05/07/how-to-supercharge-trusts-with-life-insurance/ [5/7/15]