



Accessing Cash Values for Life's Needs

Cash Value Life Insurance offers significant tax-free cash access flexibility when properly planned.

Overview

Life insurance cash values grow income tax-deferred and gains are paid income tax-free at death.

- After-tax premiums build a cost-basis that can be withdrawn tax-free – return of your premium.
- Gains can be borrowed against on a tax-free basis – just like a car loan.

The policy loan rate is 4.00%. As collateral, the insurance company transfers an amount of cash value equal to the loan amount into an account earning 3.50%-3.75%. Hence, your true "net cost of borrowing" is 0.25% to 0.50%.

Through proper policy management you get more "spendable" cash out of a policy by keeping it in-force to death than policy surrender and paying income taxes on the gains..

Different Needs – Different Approaches

Whether to take a withdrawal, loan or combination depends on your needs.

- **Withdrawals** – Permanently reduces the cash value and death benefit and cannot be repaid.
- **Loans** – Temporarily reduces the cash value and death benefit and can be repaid anytime.

Both withdrawals and loans maintain the "net amount at risk" in the policy – total death benefit less cash value. But taking money out of a policy reduces the amount of net cash value to pay the monthly policy risk charges.

- Contributions should be maintained to cover these expenses and repay the loan.
- Death benefits can be reduced to minimize ongoing risk charges so cash values can support the policy.

Example

Let's assume a male age 50 saving \$50,000 a year outside his 401(k) / IRA and needs \$1 million of protection to age 70. At age 70 he plans on making a significant purchase – second home, boat, etc. His options are:

- Buy a 20-year term policy and invest the rest in a taxable brokerage account.
- Use Institutional Life Insurance (ILI) as a fund, cash, tax and risk management container – The STAR Plan.

Buy Term and Invest				Institutional Life Insurance			
Year	Cash-Flow	Brokerage Account Value	Total Death Benefit	Cash-Flow	Cash Value	Total Death Benefit	
1	50,000	50,085	1,050,085	50,000	50,695	1,046,940	
5	50,000	275,789	1,275,789	50,000	266,867	1,266,867	
10	50,000	624,853	1,624,853	50,000	641,302	1,641,302	
20	50,000	1,625,851	2,625,851	50,000	1,873,489	2,873,489	
21	-1,625,851	0	0	-1,824,596	50,620	185,613	
30	0	0	0	0	75,545	134,731	
40	0	0	0	0	96,188	175,463	

Greater net accessible cash plus continued protection because ILI risk rates cost less than today's tax rates.

Please contact me to review your options when you need to access cash for life's needs.