Business Performance | Advanced Market

The Many Benefits of Cash Value Life Insurance

Cash value life insurance provides optionality that your clients will both appreciate and rely upon in retirement.

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By David Appel, CLU, ChFC, AEP

Cash value life insurance is like a Swiss Army knife — it operates as an important tool with multiple options. One tool protects your family, or your business should you die, while another tool can be used as a financial resource should you need it later in life. When non-MEC policies are properly designed and funded, income can be taken as a tax-free withdrawal up to basis and, beyond basis, through policy loans. Indexed universal life (IUL) insurance products with a 0% floor can protect your client in the down years of market performance.

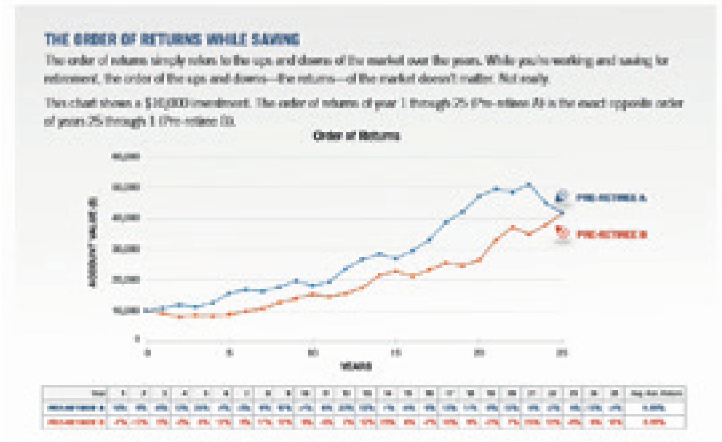
The ending values in the investment account and overall pool of money are very different in an up vs. a down market.

Taking money from the cash value in an existing life insurance contract rather than from investments in years of poor market performance allows your client's other retirement assets the chance to recover and improve their overall financial position in the long run.

The following are three sequence-of-return scenarios showing both the saving phase and the income phase for established investments.

Scenario #1

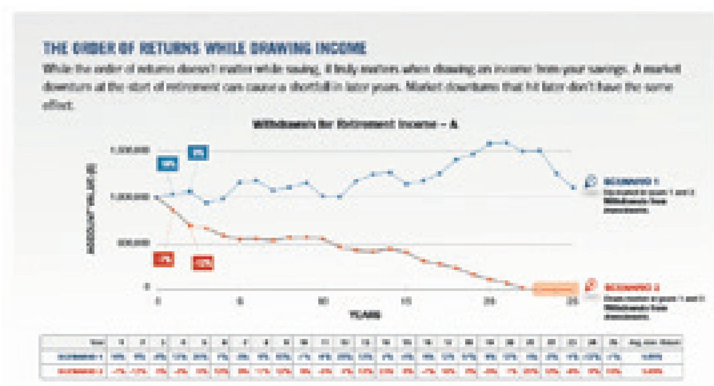
The chart below shows two hypothetical "order of returns" or the ups and downs of the market over a 25-year period.



The above graph demonstrates that during the accumulation or saving phase, the order of returns does not matter. The number ends up the same at the end of the 25-year period.

Scenario #2

Now assume the client has a total portfolio value of $1,000,000 and we apply the same 25-year returns. The chart below shows the impact of a significant market downturn at the start of retirement when withdrawals begin, resulting in a shortfall in later years. As you can see, the ending values in the investment account and overall pool of money are very different in an up versus a down market.



Protecting your client's retirement income with insurance

How can insurance help to protect a client's retirement income? Let's look at another hypothetical scenario using the same $1,000,000 of accumulated retirement funds. At age 65, your client plans on taking $65,000 per year from their market invested retirement savings. Investment performance is key. When the market goes down in each of the first two years and the client withdrawals $65,000 in each of those two years, the impact on the investment is significant. The invested retirement savings will run out three years earlier than originally projected!

Scenario #3

In the chart below, it shows what happens when the client withdrawals $65,000 from the accumulated value in their life insurance contract instead of from their market invested retirement savings. If the insurance contract is properly designed from the outset, the client's income would very likely be tax-free. By pulling income from an alternative source (life insurance) in the first two years of retirement, the client's assets can stay invested during the early down years and provide the opportunity for recovery of value as the market improves. This approach helps the investments show an increase in value at the end of the 25-year projection.

The other great thing about life insurance? When your client dies, the policy's death benefit passes tax-free to their beneficiary or beneficiaries.

Your clients work very hard and plan their entire lives to achieve a stress-free retirement. Putting 100% reliance on income from retirement portfolios is like trying to use a simple pen knife to survive in the woods when a Swiss Army knife would have been a far superior alternative. It is up to you, the advisor, to make sure that your clients have the correct tools later in life. Cash value life insurance provides optionality that your clients will both appreciate and rely upon in retirement.

David E. Appel, CLU, ChFC, AEP, is with Appel Insurance Advisors, LLC, in Newton, Massachusetts. Contact him at 617-332-7900 or at www.appeladvisors.com.