A NEW LOOK ON LIFE

Life Insurance as an Asset Class

When asked to list their financial assets, many people may include stocks, bonds, savings accounts, home equity, retirement accounts and the like. When it comes to their expenses, the list may include mortgages, utilities, food, clothing, health insurance ... and life insurance.

While focusing on building assets for retirement, life insurance is oftentimes viewed as just a necessary expense to help protect a family's future.

The reality is, life insurance can also be a valuable asset in your overall financial strategy, offering much more than just death benefit protection.

When asked to list their assets, many people may include:	When asked about expenses, the list may include:
Stocks Bonds Savings Accounts Home Equity Retirement Assets Cars	Mortgages Utilities Food Clothing Kids Education Auto Insurance Disability Insurance Health Insurance
	Life Insurance

A NEW LOOK ON LIFE

With the ever-changing economic landscape, the limitations of many traditional investments like IRAs and 401(k)s, and the potential impact of current and future income taxes on your overall retirement strategy, you may be left wondering what options you have to create a more tax-efficient strategy. Life insurance is first and foremost an insurance product that offers a death benefit for your beneficiaries. But many types of life insurance can also be used as a supplemental solution to help address these potential financial concerns with tax-deferred accumulation and its distribution and transfer capabilities.

What makes life insurance so unique that it could be considered its own asset class?

The IRS tax code

The IRS tax code has allowed for life insurance cash values and death benefit proceeds to receive tax advantages that are truly unique. What other financial asset can offer all of these tax advantages?

- Tax-Free Death Benefit
- Tax-Deferred Accumulation
- Tax-Free Distributions
- Tax-Free Accelerated Death Benefits

Tax Advantage #1 Tax-Free Death Benefit

Generally, the beneficiaries of an individually owned life insurance policy do not have to pay income tax on the death benefit thanks to IRC Section 101(a).[1] This is true whether they take the death benefit as a lump sum or over a period of time. However, if the death benefit is taken over a period of time, any interest earned would be taxable as income to the beneficiary. Life insurance proceeds may be subject to estate taxes.

Tax Advantage #2 Tax-Deferred Accumulation Potential

Any cash value growth in a life insurance policy is tax-deferred. The owner of the policy is not required to pay any income tax on the cash accumulation while inside the policy.

Tax Advantage #3 Tax-Free Distributions

Loans taken against a life insurance policy's cash value are not subject to income taxes provided the policy is not a modified endowment contract (MEC).[2]

Tax Advantage #4 Tax-Free Accelerated Death Benefits

If the insured becomes terminally or chronically ill, a portion of the death benefit may be paid out while the insured is still living. These tax-free "living benefits" are paid on a per diem or other period basis and are excluded from income tax up to a limit determined by the IRS, per IRS Section 7702B(b).[3]

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[1] If properly structured, proceeds from life insurance are generally income tax-free.

[2] Policy loans and withdrawals will reduce available cash values and death benefits and may cause the policy to lapse. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. Tax laws are subject to change; consult a tax professional about your personal situation.

[3] An acceleration of the policy death benefit is generally income tax-free as defined in IRS Section 7702B(b). Some accelerated benefit riders may require an additional fee; rider and/or life insurance product availability may vary by state. Actual rider benefit amount will vary according to the rules and restrictions of the specific life insurance product selected and will reduce the ultimate death benefit and cash value. Accelerated benefits are not a replacement for long-term care insurance and are subject to eligibility requirement.

What is a Modified Endowment Contract (MEC)?

The IRS has put into place certain "tests" that a life insurance policy must pass in order to qualify for all of the tax benefits listed on the previous page. To put it simply, there must be enough death benefit in relation to cash value, commonly referred to as the "corridor," to maintain its status as a life insurance policy. This prevents a person from using life insurance for the sole purpose of accessing tax-free cash. If the policy fails these tests, it is no longer considered life insurance by the IRS and is classified as a MEC. This can happen if a policy has been funded too quickly in its early years or if the death benefit is reduced too much in the first seven years of the policy.

What does it mean for you if your policy is a MEC? First, a MEC is still a life insurance policy. It will still have tax-deferred cash value accumulation and a tax-free death benefit. The taxation impact of owning a MEC is realized only when accessing any cash value. Withdrawals are fully taxable as income, to the extent that there is a gain in the policy over the amount of premiums paid per IRC Section 7702A. Withdrawals are also subject to a 10% federal additional tax if the owner is below age 59 ½.

	TYPE OF LIFE INSURANCE	
	NON-MEC POLICY	MEC POLICY
Death benefit	Income tax-free	Income tax-free
Cash value accumulation	Income tax-deferred	Income tax-deferred until distribution (see below for taxation on a distribution)
Policy loans	Income tax-free	Any gain on the policy is taxable (and must be withdrawn first), plus 10% federal additional tax if prior to age 59 ½
Policy withdrawals	Income tax-free up to the cost basis (premiums paid less any withdrawals)	Any gain on the policy is taxable (and must be withdrawn first), plus 10% federal additional tax if prior to age 59 ½

ALL ASSETS ARE NOT CREATED EQUAL

Every asset type is different in some way. Here are a few key considerations:

- Level of risk
- Taxation
- Limitations
- Liquidity
- Stability
- How it earns interest

It is important to ensure that your financial strategy is diverse enough to withstand not only the test of time but also the test of taxes. The goal of diversification among asset classes is to achieve the best risk/return ratio for your needs, lifestyle, financial situation and personal preferences. In order to obtain diversification, you combine diverse asset classes, each possessing unique characteristics and attributes relative to other asset classes — including taxation.[1]

DIVERSIFY YOUR TAX EXPOSURE

While market diversification is a fundamental investing strategy, tax diversification is not always discussed. It is important to examine your investments and insurance holdings both now and in the future as your retirement outlook could be impacted by an uncertain tax environment. And while nobody can predict what taxes will be in the future, we can always look at the state of our nation's economic affairs today as well as where taxes have been in the past for possible indicators.

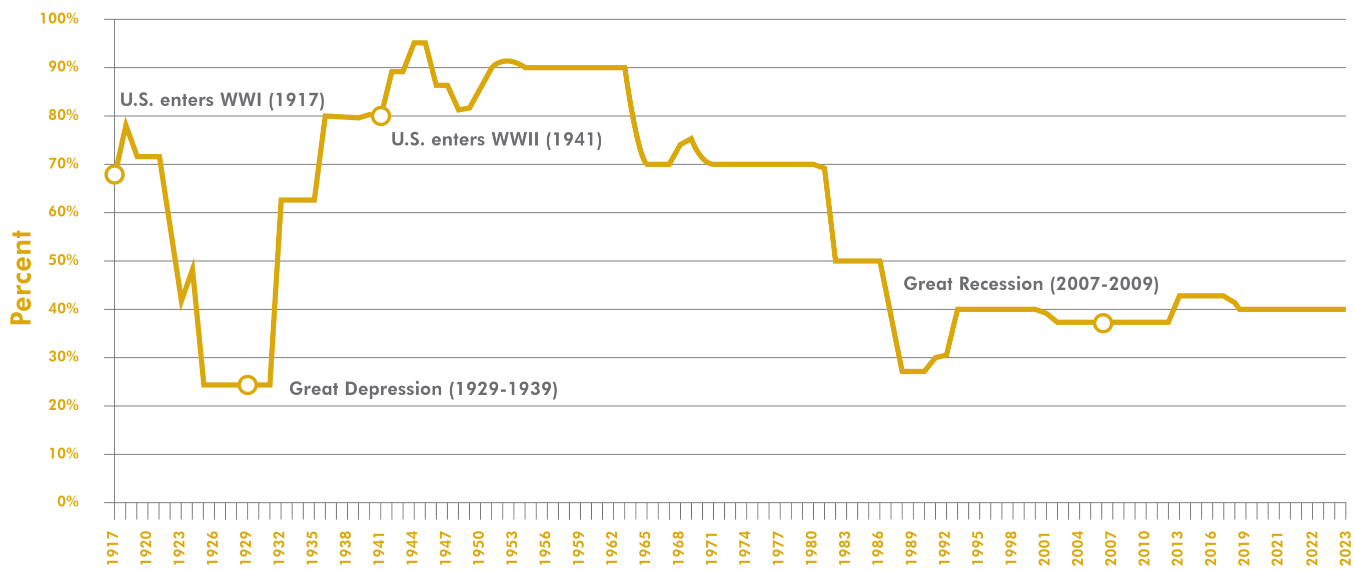
[1] Diversification does not ensure a profit or guarantee against losses.

Where we are today: $31.4 trillion national debt as of January 2023[1]

Our government has a huge financial problem on its hands. Looking at this, do you think taxes will be going down anytime in the near future?

Where We've Been

History of Top U.S. Federal Marginal Income Tax Rates[2]



[1] *Statistica. Feb. 13, 2023. "U.S. publicly held debt 2021-2023, by month." https://www.statista.com/statistics/273294/public-debt-of-the-united-states-by-month/. Accessed Feb. 27, 2023.*

[2] *Bradford Tax Institute. "History of Federal Income Tax Rates: 1913 – 2023." https://bradfordtaxinstitute.com/Free_Resources/Federal-Income-Tax-Rates.aspx. Accessed Feb. 27, 2023.*

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Looking back over history, you can see where U.S. income tax rates have increased in response to events both in the United States and around the world.

1930s	**Taxes spiked dramatically in the 1930s in an effort to implement programs to get Americans back to work after the Great Depression.**
1940s	**Taxes increased again to help fund World War II.**
1950s	**Taxes stayed high due to the Korean War.**
1960s	**Taxes remained high to fund the Vietnam War.**
Today	**Compared to the decades-long era of high tax rates (as shown on the chart on the previous page) — averaging over 60% and topping out at over 90% for top taxpayers — we are experiencing relatively low tax rates right now.**

Today, what are we facing as a nation?

- A $31.4 trillion national debt as of January 2023[1]
- Lingering effects from the COVID-19 pandemic
- Aging infrastructure across the country

Does it sound like history may repeat itself? Again, nobody can predict the future, but it would be reasonable to assume that income tax rates will continue to evolve over time, experiencing both high and low periods. A diverse financial strategy that includes life insurance can help protect you against fluctuations in tax rates. How? During years with higher tax rates, you may have the ability to access funds on an income tax-free basis.

[1] *Statistica. Feb. 13, 2023. "U.S. publicly held debt 2021-2023, by month." https://www.statista.com/statistics/273294/public-debt-of-the-united-states-by-month/. Accessed Feb. 27, 2023.*

LIFE INSURANCE AS AN ASSET CLASS

Looking at life insurance as an asset class may be a new concept to you. As careers flourish and resources allow, life insurance may be an ideal component of your overall personal or business retirement strategy, complementing fixed-income assets and helping to manage and potentially reduce your total tax liability.

Take a new look at life insurance as an asset in your overall retirement strategy.

Things to Consider

- The cost of a life insurance policy, including premiums and any cost of insurance charges, is dependent on your age and health at the time of application.
- Most life insurance policies require health and, in some cases, financial underwriting.
- Life insurance involves fees and charges, including surrender charges which may reduce your principal.

BENEFITS OF LIFE INSURANCE

- **Immediate Protection**
  Life insurance provides a death benefit the day the policy is issued.
- **Liquidity Upon Death**
  Often a significant portion of a person's assets may be composed of illiquid assets such as real estate and business ownership. Life insurance can provide the funds to help pay for final expenses and estate taxes when it is needed the most.
- **Income Tax-Free Payment**
  The death benefit provides income tax-free proceeds to the beneficiaries.[1] If the ownership is structured properly, it may also be free of estate taxes.
- **Predictable Value**
  The policy can be structured with a known death benefit amount unaffected by market values.
- **Easily Divisible**
  Death benefits can be easily divided among several beneficiaries — generally without probate.
- **Tax-Deferral**
  Any cash value growth is tax-deferred.
- **Income Tax-Free Distributions**
  Loans taken against the cash value are not subject to income tax provided the policy is not a MEC with NO pre-59 ½ IRS federal additional tax.[2]
- **Leverage**
  Premiums paid for death benefit protection may provide reasonable growth on the policy's cash value through life expectancy.
- **Living Benefits**
  A portion of the policy death benefit may be accelerated to help offset the costs associated with a chronic illness or long-term care, including a stay in a nursing home.[3]
- **No Funding Limits Based on Income**
  There are no IRS limits to how much you can contribute to a life insurance policy as there are with some traditional qualified retirement plans.[4]

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[2] Policy loans and withdrawals will reduce available cash values and death benefits and may cause the policy to lapse. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. Tax laws are subject to change; consult a tax professional about your personal situation.

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[4] Life insurance premiums are not limited above certain income guidelines. Generally, there is not a specific limit on dollars allocated to purchase life insurance; however, there are maximum premium limits determined by a specified policy face amount according to the Internal Revenue Code. The face amount of coverage each carrier will underwrite will also differ.

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