

Why Not Position Life Insurance For Tax-Free Retirement Income?

Total insurance in force is one criterion that rating agencies look at when ranking life insurance carriers. That's one reason why carriers often tout their insurance in force.

But is this the right focus? Why not focus on how much tax-free income heavily funded life policies can provide?

This is not to say retirement money should not also be invested in tax-deferred accounts like 401(k)s. Rather, it is to recommend changing the basic focus on how life insurance has been sold during the past couple of decades.

Currently, two of the most popular contracts sold are term life and no-lapse universal life. Term is not known to build cash values, and universal life with no-lapse guarantees suppresses cash values to focus on guaranteed death benefit protection with minimal cash value accumulation.



► **By spending time** focusing on tax-free income potential, advisors can help clients see the huge opportunity that life insurance products deliver to maintain their financial well being.

The question is, has the industry sold itself (and more importantly its

customers) short by framing the life insurance sale this way? That's an especially important question to explore in view of the deterioration of employer-provided defined benefit plans and government plans (e.g., Social Security). Shouldn't the sale be framed to focus on the value to the customer for the money spent, including the value during retirement?

Think about it. What other financial vehicle can provide tax-free income other than a heavily funded life policy? And the only limit is the amount of money the customer wants to use to fund his or her retirement.

Do consumers know this? Has the industry demonstrated the financial power of life insurance to provide tax-free retirement income?

Perhaps the industry has framed the sale all wrong over the past couple of decades and has let the life insurance conversation focus on price, therefore commoditizing the contract without discussing value.

Effective sales in life insurance are all about positioning. The life insurance industry has one of the greatest financial instruments available to provide tax-free retirement income at any age, for any duration, in any amount (if properly funded). Unfortunately, the industry has framed the discussion to focus on death benefits.

Most people don't want to think about death. And while the industry still sells insurance because clients understand the need to provide for beneficiaries, how much more could it sell and how many more people could it help if the discussion were to focus on the living benefits of tax-free income from life insurance?

For anyone who is worried about Social Security being there when the person needs it most; for anyone who believes that tax rates will increase in the future; for anyone who believes it important to rely on oneself (and not the government or employers) to take care of retirement needs; for all those people, life insurance is the perfect answer.

This discussion isn't necessarily product specific. This positioning can be done by using whole life with more focus on guaranteed cash, current assumption UL with more focus on nonguaranteed cash accumulation, or indexed UL with focus on bigger upside potential.

Example: Assume a 45-year-old male, a preferred nonsmoker, who has \$1 million of death benefit protection in a UL with a no-lapse guaranteed premium of \$6,290 a year. The UL provides death benefit guarantees with very little cash value accumulation, so, at retirement age 67, it has no cash value and cash will never accumulate past that point.

Will the client need that much death benefit past retirement? Perhaps the option of tax-free income would be more enticing?

To get such income, assume the man pays 20% more in premium (\$7,548 a year) for 20 years. Also assume he splits up the premiums between 20-year guaranteed term for \$900,000 (\$1,429 annual premium) with the remainder put into a current assumption UL (initial death benefit of \$115,000 and annual premium of \$6,119). In this scenario, the man would have, on an illustrated basis, the opportunity to have tax-free income (via typical surrender to cost basis and policy loans) of \$12,180 a year starting at age 67 and lasting to age 99.

Of course, more guaranteed cash value can be built into the contract (using perhaps whole life) or more aggressive accumulation options (using indexed UL). However, the benefit to the policyholder is that any combination can be built using a multitude of products. The man just needs to decide how much tax-free income he wants to receive and when.

Remember, with this strategy, there are no forced distributions as appear in other retirement plans. The policyholder is clearly in the driver's seat.

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maintain their financial well being.



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