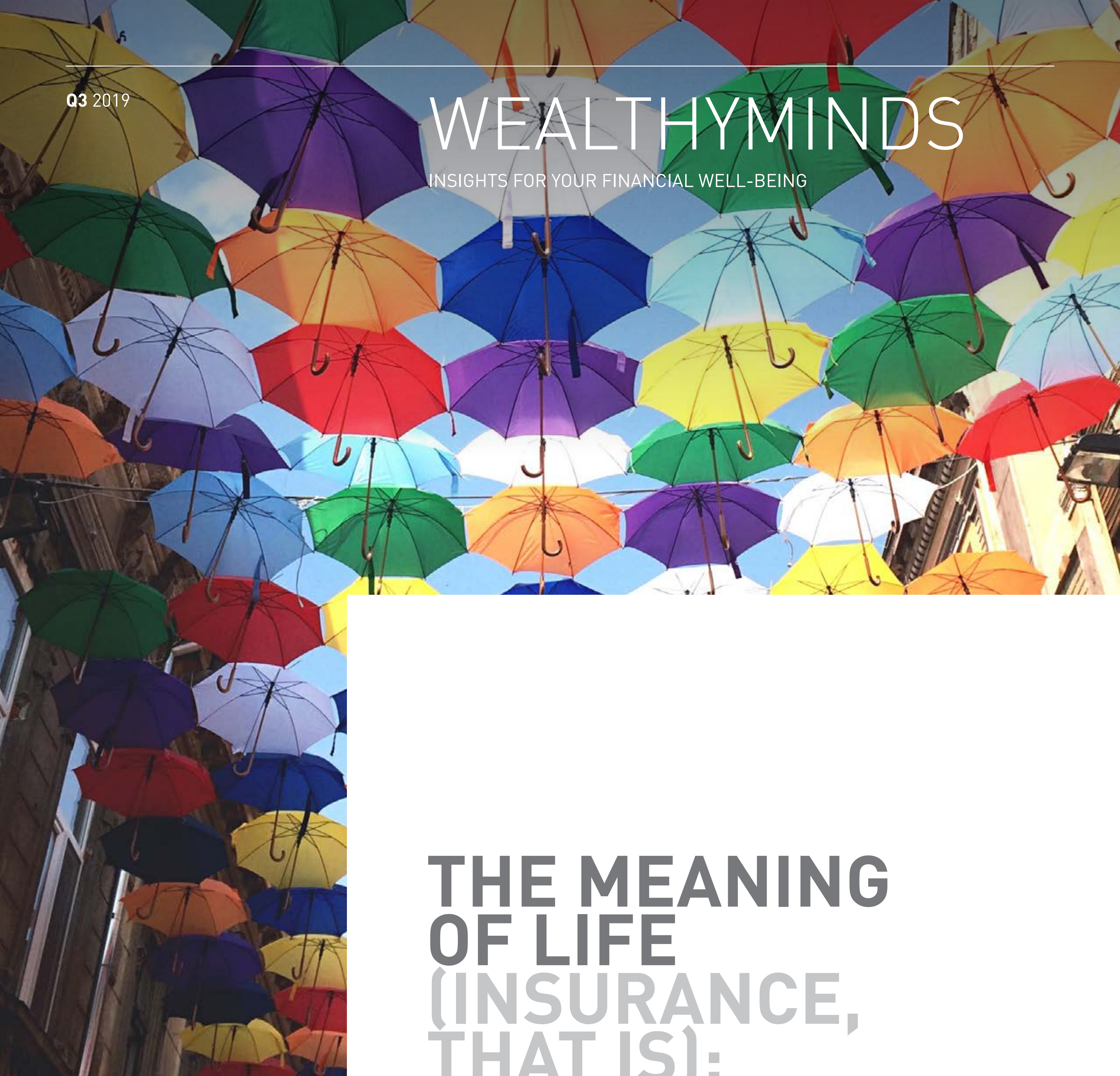

Q3 2019

WEALTHYMINDS

INSIGHTS FOR YOUR FINANCIAL WELL-BEING

THE MEANING OF LIFE (INSURANCE, THAT IS):

SIX SIMPLE QUESTIONS TO HELP YOU UNDERSTAND THE INS AND OUTS OF LIFE INSURANCE AND PLANNING

People's United Advisors®

THE MEANING OF LIFE (INSURANCE, THAT IS):

SIX SIMPLE QUESTIONS TO HELP YOU UNDERSTAND THE INS AND OUTS OF LIFE INSURANCE AND PLANNING

LIFE INSURANCE AS AN ASSET

Life insurance is an important part of the financial picture for many investors and savers. And yes, it offers protection, but it can do more in the right circumstances and for the right policyholders.

[1]https://www.nerdwallet.com/blog/insurance/what-is-the-difference-between-term-whole-life-insurance/

LIFE INSURANCE IS AN IMPORTANT PART OF THE FINANCIAL PICTURE for many investors and savers. And yes, it offers protection, but it can do more in the right circumstances and for the right policyholders. So how can it meet varying needs, and how can it play a role in a well-thought-out financial plan? While of course, there are no one-size-fits-all answers, we raise and answer six key questions here that prospective or current life-insurance policyholders should ask.

1. Do I Need Life Insurance?

Although life insurance can provide benefits in addition to helping protect beneficiaries after the policyholder's death, the death benefit is usually its reason for being. In general, if you don't have family members or others who are financially dependent on you, you can probably ignore life insurance and put the money you'd otherwise spend on premiums to better use. *(After all, whom would you name as a beneficiary?)*

A further note: Couples might consider insuring each other, even if one earns much less or isn't in the workforce. He or she may provide services to the family that would require a substantial outlay of funds to replace.

2. When is the best time to buy life insurance?

There's no "right" answer here. You'll often hear that the earlier you buy insurance the better. For example, a 30-year-old man might buy a 30-year $500,000 term policy *(we'll get to term vs. other life-insurance types in Question #4 below)* for an annual premium in the neighborhood of $375. When he reaches the age of 50, the same policy might cost him $1,500.[1]

But in either case, the questions he needs to answer are whether he can afford the premiums, whether he has ample funds from other sources to protect his loved ones, and whether he'd be better off investing the funds instead—since the longer his funds are invested, the more time they'll have to grow.

You should discuss your unique trade-offs with a financial expert. But bear in mind that, absent other assets, you should probably have insurance at least by the time you buy a home (if you do) to cover mortgage payments in the event of your death.

3. If I need life insurance, how much should I buy?

Determining how much life insurance you need depends on a host of factors, including your age, the state of your health, how many dependents you have and how old you are, how much you have in other assets, your debts, and the financial goals that your life insurance will serve.

Let's say you're looking simply for protection for your family: replacing the income they'd lose if you were to die. But you don't want to duplicate protection they will enjoy from other sources. Indeed, if you have substantial financial assets, you may

EVERY FINANCIAL PLAN NEEDS PROTECTION

Insurance is generally viewed only as protection but it should really be thought of as the foundation of a well-built financial plan. Insurance is an investment that can truly make an impact on the future of your legacy. Life insurance can help to turn highly taxed assets into tax-free assets, increasing purchasing power. It is an asset and should be managed as such.

elect to forgo life insurance or they may want it to cover estate tax. Remember though, to include your debts and other liabilities in your reckoning, not just your assets. Further, if you're working, you may have low- or no-cost life insurance courtesy of your employer. If so, it should be counted when you determine how much protection you need to buy, but employer life insurance is likely to terminate if you leave your job.

There's no dearth of formulas for figuring out the appropriate amount of life insurance. One of the classics is 10 times your annual income, so for example, if you're earning $100,000 a year, you'd purchase a $1 million policy. However, this equation ignores your debts, and in the view of some insurance experts, is overly simple. Other rules of thumb include *(a)* buying 10 times your annual income plus $100,000 per child for college expenses, and *(b)* multiplying your annual income by the number of years your family will need support, adding in your debts and your estimated future needs (including your final expenses), and subtracting your liquid assets.[2]

Whatever number you come up with, you'll need to monitor your situation at least annually in the years to come: Your income, assets, debts, and family situation may change significantly, suggesting an adjustment—either up or down—in the amount of your life insurance. And choose the insurance company with a careful eye toward its stability and creditworthiness; you'll likely be trusting them to make a substantial payout decades later.

4. What type of life insurance is right for me?

Broadly, there are two types of policies: term and permanent life *(also called cash-value insurance)*.

Term insurance is so-called "pure protection": That's the only benefit it offers. So long as you pay the premiums, it maintains a death benefit for your beneficiaries if the policy is still in force when you die. As its name suggests, term insurance is good for a specified amount of time *(perhaps 20 or 30 years, for example)*. When the time limit arrives, you may be able to extend coverage—almost always for a significantly higher premium, since as you age you become a progressively poorer bet for the insurance company. And after a certain age *(often 80)*, you probably won't be able to buy term insurance at all.

Premiums on a term policy are often level throughout its term, but they may gradually increase, depending on the policy. If you're still alive at the end of the term, the policy lapses, and you and your beneficiaries receive nothing. That's the typical case—but you got what you paid for when the policy was active: security for your beneficiaries. If you find you no longer need the insurance at any point, perhaps because your financial assets have grown enough to support your beneficiaries or the beneficiaries have become able to fend for themselves, you can cancel your policy and avoid paying more premiums. In many cases, you can also convert from your term policy to a permanent-life-insurance policy *(see below)*. You may even be able to sell a permanent policy if you wish *(see sidebar on page 5)*.

[2] https://www.nerdwallet.com/blog/insurance/how-much-life-insurance-do-i-need/

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THE MEANING OF LIFE (INSURANCE, THAT IS):

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WHAT ARE THE BENEFITS

There are many different benefits to life insurance that one should keep in mind:

Financial Security

Guaranteed Payout Amount

Potential Cash Value

A Useful Financial Asset

Permanent life insurance is more complex, and comes in several varieties. In all types, though, the policy will provide a death benefit for as long as you live (if your premiums are paid-up or kept current) and typically also has a cash-value component designed to provide you with additional resources. Because permanent insurance offers more features than term, premiums are higher, especially early on—though they typically stay the same throughout your life. The 30-year-old man from Question #2 buying a $500,000 whole-life policy could expect to pay about $4,750 annually instead of the $375 for term insurance; at age 50, his premium would be about $11,000.[3]

The cash value of your policy is either guaranteed to grow (often at a relatively slow rate) or designed but not guaranteed to grow, depending on the type of policy. Some of the more popular are whole life; universal life *(which allows you to adjust the amount of your policy and the premiums you pay and whose cash value is tied to prevailing interest rates)*; variable life *(whose premiums are fixed and whose cash value depends on the performance of fund-like investments that you choose)*; and variable universal life *(which combines features of both of those two)*. There are other types of permanent insurance, and each contains sub-types.

You can use accumulated cash value as you see fit. You can withdraw it and either spend the cash or invest it in other accounts, use it as collateral for a low-interest loan on the policy, or in some cases use it to pay policy premiums or even increase the death benefit. Your goal should always be to use up the cash value while you're alive, because any remaining cash value after your death goes to the insurance company, not your beneficiaries. But keep track of how much money you're taking out: If you invade the face value of the policy, it will be canceled.[4]

LIFE-INSURANCE POLICIES: COMPARING TERM AND PERMANENT INSURANCE (USING WHOLE LIFE AS AN EXAMPLE)

POLICY FEATURES	TERM LIFE	WHOLE LIFE
DEATH BENEFIT	●	●
LIFELONG COVERAGE		●
LOW PREMIUMS	●	
GENERALLY STABLE PREMIUMS	●	●
PAYOUT AMOUNT GUARANTEED		●
ACCUMULATES CASH VALUE		●
USEFUL AS A FINANCIAL ASSET		●

[3]https://www.nerdwallet.com/blog/insurance/what-is-the-difference-between-term-whole-life-insurance/

[4]Adapted from https://www.nerdwallet.com/blog/insurance/what-is-the-difference-between-term-whole-life-insurance/

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5. Does life insurance have tax benefits?

Many policyholders don't think of life insurance as a tax-advantaged asset, but in fact it is; among the tax features to consider:

- The death benefit in either a term or permanent-life policy comes to the beneficiaries free of income taxes (though not necessarily estate taxes; see Question #6 below).[5]
- A portion of the death benefits in both types of insurance is generally available tax-free to the policyholder if he or she is chronically or terminally ill.
- The cash value of permanent-life policies grows tax-deferred.
- Loans from permanent-life policies collateralized by the cash value may be taken tax-free up to the amount of cash value available. These loans (which accrue interest) do not have to be paid back, but if they aren't, the death benefit will be reduced accordingly.
- Withdrawals from a policy's cash value can be made tax-free on amounts up to the total premiums paid. This will also lower the death benefit if the funds aren't replaced.
- If your policy pays dividends, they come to you tax-free, up to certain limits; any interest payments are taxable.

Your tax advisor can tell you more about life-insurance tax benefits. While those benefits are clearly significant, we'd never advise buying a policy for its tax features alone. Rather, the death benefit and the accumulation of cash value are primary. But the tax advantages are a nice bonus.

6. How can insurance fit into my total financial plan?

This, of course, is the key question. As we've said, life insurance isn't for everyone. But it is part of the financial picture that we see *(and advise)* most often. If you simply want protection for your loved ones, life insurance, probably term insurance, clearly has a role to play. It provides peace of mind for you and your beneficiaries. *(By the way, it's always good to name a secondary as well as a primary beneficiary.)*

If your needs are more extensive, you might consider a permanent-life policy for its cash value. Paradoxically, it can be most useful for policyholders with substantial assets who don't need (but still deploy) the death benefit. Instead, they can tap the cash value of the insurance as a source of extra, typically-secure, income—and/or can use the full policy as an estate-planning tool.

Even with the federal-estate-tax exemption at $11.4 million for an individual *($22.8 million for a married couple)*, estate taxes should be considered if you have significant assets. First, the exemption is scheduled to revert to about $5 million per person in 2026 unless Congress intervenes. Second, if your state levies its own estate tax, the exemption amount may be much lower. But you can keep your policy outside your estate either by transferring ownership before your death or housing it in an Irrevocable Life Insurance Trust *(ILIT)*.

CONTINUED

SELLING YOUR LIFE INSURANCE POLICY:

A GOOD DECISION...MAYBE.

It's become a popular strategy:
If you find you no longer need your life insurance, or you're having trouble paying the premiums, rather than surrender the policy or letting it lapse, you may be able to sell it through a life-settlement broker or directly to a buyer. This is possible only if the policy is one of the permanent-life varieties (or converted from term), and in most cases only if you're older than 65 and the face value of the policy is at least $100,000-$200,000.

If you sell, you'll probably get about 13-21% of your policy's face value, according to the U.S. Government Accountability Office,* before any commission payments. If you're interested in selling, shop around for the best offer. And consider the alternatives: modifying the policy if you can, finding other funding sources for the premiums, or just taking out the cash value.

*https://www.moneytalksnews.com/how-to-sell-your-life-insurance-policy/

[5]This assumes that the death benefit is paid as a lump sum. If you ask for the benefit to be paid out in installments, it will earn interest as it accumulates, subject to taxation for the beneficiaries as interest income.

THE MEANING OF LIFE INSURANCE: UNDERSTANDING THE INS AND OUTS

PROTECT WHAT MATTERS MOST TO YOU

It's not always easy to have a conversation about life's 'what if' scenarios. It's important to prepare for the unexpected. Preparation is necessary in building a solid foundation for your future.

An ILIT can be teamed up with other trusts to efficiently bestow tax-free gifts to charity, to transfer the value of a business to new owners, to leverage the value of gifts to your family, to help assure that your beneficiaries receive roughly equal shares of your estate, and more. A trust may not even be necessary: An insurance policy can sometimes be gifted outright to achieve some of those goals. And if your beneficiaries are still subject to estate taxes on your estate even if you've removed the life insurance from it, your policy's cash value can help them pay.

Make no mistake: None of those techniques are simple, and none should be attempted without the help of a trusts-and-estates expert.

Don't forget:

Life insurance is only one of many types of insurance that you need to consider. Among them may be health and long-term disability policies (if not provided by an employer), property insurance, casualty insurance, and auto insurance. Do an insurance checklist for yourself and monitor it periodically to assure that the number of policies, their sizes, and their benefits are still in line with your objectives.

Where We Come In

People's United Advisors offers investment and financial advice customized to each client, drawing on its own expertise and the extensive resources of People's United Bank. Life insurance is just one component of a balanced financial plan and the discussion above is intended to get you thinking about the conversations that you should be having with your advisory team.

People's United Advisors can help provide the advice you're seeking.

Please contact us at 1.800.772.8778 or visit peoples.com