

LIFE INSURANCE CHECK-UP TIME

September is National Life Insurance Awareness Month.

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

Is your Life Insurance up-to-date? Life insurance is like the Swiss Army knife of estate planning: there are so many ways you can use it as you plan to pursue your goals. Whether you simply need to insure yourself or need to protect your estate through sophisticated planning, September is the month to think about life insurance - and all the ways it can potentially help you financially.

30% of Americans have no life insurance whatsoever. So says a 2010 study from LIMRA (a worldwide association of insurance and financial services company), which also revealed this troubling fact ... right now, fewer Americans own individual life insurance policies than at any time in the last 50 years.¹ If you're not insured, you're not alone.

Did you cut your coverage due to financial hardship? Are you waiting for sturdier financial times? The non-profit Life and Health Insurance Foundation for Education (LIFE) found, via poll in 2008, that 27% of Americans would be willing to cancel their life insurance coverage to save money in hard times.² But if the unthinkable happens, a lack of insurance could make even the toughest times more difficult for loved ones.

LIFE wants to awaken Americans to the need for life insurance, and its remarkable utility as an estate planning and tax-saving tool.

Did you realize that life insurance could be more than merely an inheritance planning tool? It may also be a vital piece of the financial strategy puzzle for empty-nesters who want to retire to a comfortable lifestyle. Own a business? A buy-sell agreement funded with life insurance allows a surviving business owner to buy the company interest of a deceased owner at a previously established price. Key-person insurance can aid a business if a core employee passes away. (It is possible for a business to fund a buy-sell agreement and key-person insurance with pre-tax dollars, making these moves truly tax-efficient.)

If you do have life insurance, have you reviewed it lately? Some people purchase a life insurance policy and name a son or daughter as a beneficiary. This thoughtful decision has one little downside. If you own the policy, the death benefit is included in your taxable estate.³

You have an alternative here. You don't have to own your life insurance policy. Your children (or other beneficiaries) can own it. If they do, they will receive a large payout free from federal estate and income taxes when you pass away.³

You can make gifts to your kids to acquire the insurance, and your kids can pool their money and buy policies on Mom and Dad. The more kids you have, the less the premium burden. Not only that, some policies can build up cash value (tax-free growth within the policy).

Here's another way to remove life insurance proceeds from your taxable estate: an irrevocable life insurance trust. You can have the trust own the policy, and you can periodically fund the policy through gifts made to the trust. The trust will get the proceeds from your policy when you die, and those proceeds can be distributed according to your wishes - they can go to your loved ones or charity, they can be used to pay estate taxes.³

As you plan to build wealth, consider ... There are cash-rich life insurance policies with tax-advantaged savings features that offer you the potential to earn interest based on the gains of an equity index. Others permit you to direct a percentage of your premiums to investment sub-accounts which may generate tax-free earnings. These policies can be useful when it comes to business continuation and employee benefits, retirement planning, education planning and estate planning.

Think life insurance isn't affordable? You might be surprised. Let's say you just want term life, just basic life insurance without the capability to accumulate cash value. You'll pay relatively less for it: it isn't that expensive compared to other forms of life insurance coverage. Premiums for standard-risk term life insurance got smaller and smaller from the mid-1990s through the late 2000s, and only recently have they started to increase as a consequence of higher capital and reinsurance costs (which are byproducts of tighter credit markets).

Many insurers have raised premiums on term policies by 1-5% within the last couple of years (sometimes more). Some insurance industry analysts think this may prove to be only a temporary increase. Others think now is the best time to buy term coverage.⁴

It can't hurt to double-check your life insurance, to be certain you are using it wisely and that your coverage is adequate.

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Citations.

¹ articles.moneycentral.msn.com/Insurance/article.aspx?post=1798693 [8/30/10]

² lifelifehappens.org/content/view/522/479/ [9/18/08]

³ wellsfargoadvisors.com/financial-services/estate-planning/estate-taxes.htm [9/3/09]

⁴ online.wsj.com/article/SB124450333064895949.html [6/9/09]