ADU insights

Bringing You Planning Ideas that Incorporate Life Insurance

PACIFIC LIFE

Pacific Life Insurance Company

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Pacific Life's Advanced Designs Unit (ADU) consists of six highly respected professionals who specialize in advanced life insurance planning.

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4 Opportunities for Life Insurance in Tumultuous Times:

"Being fully present is the best guarantee for a bright future." – Guy Finley

Coronavirus, plunging oil prices, historically low interest rates, a presidential election year ... while the combination of these events may be new, today's sense of volatility, uncertainty, complexity, and ambiguity (VUCA) is not. In such times, it is mission-critical to help your clients stay calm, confident, and informed of the financial opportunities that may help them persevere.

If you plan properly for these times and set a good communication foundation, the doors of opportunity may well open. Here are four opportunities to help your clients discover the potential of life insurance as a complement to their financial portfolio in these tumultuous times.

1. Provide a Financial Foundation

The main benefit of life insurance is death benefit protection. Worst case scenario—if the insured dies—the policy beneficiaries receive a payment that is generally free from income taxes[1] and can be used to help stabilize the financial impact of this devastating loss. Death benefit proceeds may be used to help keep family businesses running or to help maintain a family's standard of living.

2. Explore Downside Protection

Many of today's life insurance products offer protection against extreme market volatility through accounts with guaranteed minimum interest crediting rates. The current market declines may provide an opportune time to allocate funds to these types of accounts. If your clients currently own indexed universal life insurance[2] policies, for example, remind them of the benefits of these policies, which offer upside potential (subject to limitations) while providing protection against market-based losses through guaranteed interest crediting floors.

1 For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

2 Indexed universal life insurance does not directly participate in any stock or equity investments.

3. Create a Tax-Diversified Portfolio

In looking forward to the future, I believe taxes will play a large part in our economic and societal recovery from these current difficult times. Overfunding a cash value life insurance policy, as part of a Life Insurance for Risk Protection (LIRP) strategy, may be something to consider adding to a client's portfolio during volatile market conditions. Should income taxes increase in the future, a LIRP strategy provides death benefit protection and tax-deferred accumulation while the policyowner works and saves for retirement. The policy may also supplement income in retirement with tax-free[3] policy distributions from the policy's available cash value.

4. Estate Planning

Consider taking advantage of the current high gift and estate tax exemptions[4] as the laws could potentially be changed in the future to provide more tax dollars to the federal government. With recent asset value decreases and interest rates being at historical lows, clients may have the ability to pass more to future generations and reduce or eliminate estate taxes. By structuring a legacy plan using life insurance, you may be able to help clients prepare for a variety of possible eventualities, including chronic illness and/or long-term care expenses.

In conclusion, difficult times present an opportunity to get in front of your clients and add value. In watching today's events unfold, I am reminded of a forest fire that ravages areas of wilderness. While devastating to watch, in a year or two the grass grows back, flowers bloom, saplings spring, and animals return. Life rejuvenates from the ashes. That may be corny, but in witnessing today's tumultuous events I think there is a parallel that can be drawn between the fire and ashes of the unprecedented times of 2008 I discussed in my other ADU insights article "5 Best Practices in Managing Concerns in a World of Certain Uncertainty" and the resulting 12 years of opportunity that followed. Help your clients prepare for the rejuvenation of their future by introducing them to the potential of a well-diversified portfolio including life insurance today.

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3 For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Sec. 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.

4 According to the Tax Cuts and Jobs Act of 2017, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all $10,000,000 per person (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%. In 2026, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are scheduled to revert to $5,000,000 per person (indexed for inflation for tax years after 2011).

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Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

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