Special Report – August 2013
A Primer on Life Insurance

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Hello! My name is Steve Geist, I'm a Financial Strategist and I specialize in Safe Retirement Plan Solutions that are tailored with care. More specifically, I help my clients tackle complicated retirement issues and guide them towards easy-to-understand solutions designed to safely preserve and grow their retirement wealth.

One way I like to teach my clients and my seminar students about Retirement is to present it as a Puzzle. And, I like to present the puzzle as containing five primary pieces. And they are:

- ✓ Puzzle Piece #1: Safeguarding Your Accumulated Assets
- ✓ Puzzle Piece #2: Setting up a Lifetime of Guaranteed Income
- ✓ Puzzle Piece #3: Addressing Taxes in Retirement and Beyond
- ✓ Puzzle Piece #4: Having Proper Coverage for Health Care and Long Term Care
- ✓ Puzzle Piece #5: Leaving a Legacy for your Loved Ones

I'm sad to report that life insurance ownership is at an all-time low in America today due mainly to a significant lack of education; not just pertaining to why life insurance is necessary but also how life insurance works. One of the top reasons given by consumers as to why they don't buy life insurance is because it is "too confusing."

LIMRA (a well known research and consulting company) provided a life insurance IQ test to 4,000 Americans in order to gauge their knowledge and comprehension of life insurance and it found that less than a third passed the 10 question exam. Less than one percent of those surveyed answered all 10 questions correctly.

By great contrast, in June of this year, New York Life released its "Keep Good Going Report," The report explored the attitudes and expectations of more than 2,000 Americans regarding how they can cultivate goodness in their lives. This survey revealed that owners of life insurance report more fulfillment and optimism in their lives compared to those without coverage.

So in this Special Report, let me present to you a Primer on Life Insurance and how it can play an important role in all five pieces of Retirement Puzzle. Life insurance is a perfect retirement planning tool that offers specific products to meet the financial needs of different life stages.

Besides its obvious primary benefit of providing a highly leveraged income tax-free death benefit, life insurance also provides other benefits such as long term care riders and tax free loans against the cash value of the policy that does not need to be repaid. Many people invest in life insurance early in their lives. And many others take such action in the later stages of their life. In both the cases, the benefits of the life insurance can help ensure a secure retirement as well as a legacy for your loved ones.

Don't need life insurance? Maybe you should rethink that

The reality is most people need life insurance. A simple rule of thumb is that if someone will suffer financially when you die, you should be covered by life insurance. Life insurance can make sense even if you do not have dependents but simply want an additional potential source of cash. People think of life insurance primarily to replace lost income or for a death benefit. But there are so many other ways you can use life insurance as you will learn in this chapter. For now let me suggest three lifestyles that may require life insurance, even if you might not immediately think so.

Lifestyle #1 needing Life Insurance: the Empty nesters
Your children have graduated from high school and college and moved on to build lives of their own. As a result, maybe you're thinking of dropping life insurance from your budget. But wait. Is it possible your nest may not stay empty? There is an increasing number of retirees caring for their grandchildren today; both physically and financially. Life insurance can be essential in this regard.
Also, you still have a spouse who may need income after you're gone. If your spouse outlives you for 10 or even 30 years, would your current financial plan provide for them and ensure they can maintain the standard of living they're accustomed to?

Plus, a life insurance policy can help provide a legacy for your children or grandchildren. Finally, a permanent life insurance policy that builds cash value can give you an extra financial safety net for future unexpected needs or opportunities which I'll talk about later.

Lifestyle #2 needing Life Insurance: Singles without children
On the surface it may seem logical for singles to shrug off life insurance. But not all single people are footloose and fancy-free. A lot of singles are taking care of a parent. You see that now much more often, as people are living longer.

Or, perhaps you have that favorite charity. Life insurance can help you leave it a legacy. By paying a little bit each month now, you can contribute significant dollars upon your death to that charity that you care about.

Life insurance also can cover your funeral costs and certain debt obligations, so loved ones will not have to pay those expenses after you're gone.

If you're young and healthy, you have a better likelihood of qualifying for a low insurance premium so it may make sense for you to lock it in now. This approach makes the most sense if you expect to get married and have a family someday and want to keep costs low during those years.

Lifestyle #3 needing Life Insurance: Retirees
In retirement you may still need life insurance as a way to protect your heirs. For example, a policy could provide funds for your family to pay estate taxes and other expenses associated with your death, including funeral costs.

Retirees also can use life insurance for "estate equalization." For example, imagine a situation where a small-business owner has two sons and a daughter. The business owner purchases a large life insurance policy to provide his daughter an equivalent share of the value of the business that will go to the boys.

Retirees who take out life insurance can spend the money they have saved over a lifetime without feeling guilty about depriving their heirs of an inheritance. Life insurance gives them the freedom and peace of mind to spend all their money and enjoy their retirement, knowing that they will be leaving a legacy in the form of a tax-free death benefit to their heirs.

Types of Life Insurance
Generally, there are two broad categories of life insurance: Term Life Insurance and Permanent Cash Value Life Insurance.

Term Insurance
Term Life Insurance is an inexpensive type of life insurance. But it is also a temporary type of coverage (lasting 10, 20 or 30 years max). Permanent life insurance is more expensive than Term, but it is, well, permanent. It ensures that you have life insurance beyond 30 years — no matter how long you live, in fact — and depending on the type of insurance, your premium amount may never change (unlike renewable term policies).

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In case you belong to a group, club, church, association or any type of organization that invites outside speakers to give interesting talks – please know that as a community service, I would be delighted to speak at your next group meeting. And I would speak on a topic that would be both informative and relevant to Retirement. Just call my office and let me know how I might be of service.

Permanent Cash-Value Life Insurance

This type of life insurance is based on a cash value. That means the policy owner makes premium payments and part of the premium is applied to the cost of insurance and part of the premium is credited to the cash value of the policy. With this type of life insurance, the policy will lapse if and when the cash value is no longer sufficient to cover the cost of the insurance. The cash value is credited each month with interest, and the policy is debited each month by a cost of insurance as well as any other policy charges and fees.

Generally, there are two kinds of permanent cash-value life insurance policies in the market today: Whole Life and Universal Life.

Whole Life Insurance

Whole Life is the product that is the foundation for America's life insurance industry. Americans on every level have relied on whole life insurance as a part of their financial framework since the middle of the 19th century. Whole life insurance policies gain their strength from their four guarantees:

1. The premium remains level throughout your lifetime.
2. The death benefit of the basic policy stays level for as long as you keep the policy in-force.
3. Cash values accumulate in the policy at a guaranteed rate.
4. Cash value accumulations in whole life contract cannot go down unless the policy owner acts to surrender all or part of the cash value in accordance with the terms of the contract.

Universal Life Insurance (UL for short)

UL is similar in some ways to, and was developed from, whole life insurance. The advantage of the UL policy is its premium flexibility and adjustable death benefits. The death benefit can be increased (subject to insurability), or decreased at the policy owner's request. The primary difference is that a UL policy shifts some of the risk for maintaining the death benefit over to the policy owner.

Now regarding UL Insurance there are two relatively new types of UL products known as Variable Universal Life and Indexed Universal Life.

Variable UL

With this type of UL, value is added or deducted from the accumulated cash value of the policy based on the performance of underlying separate accounts that operate like mutual funds and can be invested in stock or bond investments. The result with a Variable UL policy is greater risk and potential greater reward for the policy owner. With a Variable UL policy the insurance company does not guarantee the accumulation of any cash value during the life of the policy.

Indexed UL

The other new type of UL product is Indexed UL (IUL for short). Here a percentage of the cash value build up in the policy is linked to the growth of a market index such as the S&P 500. The mechanics for growth of the cash value is similar to how Index Annuities work. Indexed UL contracts only participate in the movement of the index and not the actual purchase of stocks, bonds or mutual funds. An IUL policy may have a cap as to the maximum amount of interest that will be credited to the cash value and a minimum guarantee which keeps the principal of the policy from losing money in a market downturn.

So, for example, if the S&P 500 index goes up 20 percent over a one-year period, your IUL may receive 12 percent indexed interest. In exchange for earning a limited amount of the index's growth, the IUL will never receive less than 0 percent interest. Even if the S&P 500 declines 20 percent from one year to the next, your IUL will not lose any cash value as a result of the market losses.

Utilize the Living Benefits of Permanent Cash-Value Life Insurance

Now, let's talk about what you can do with that cash value in Permanent Life Insurance. Many people use cash-value life insurance, as a source of benefits to the owner of the policy while he or she is still living. These living benefits include loans, withdrawals, collateral assignments, pension funding, and tax planning. Let me explain how loans and withdrawals work.

Loans**:**

Most cash-value life policies come with an option to take a loan against the cash value of the policy. These loans require interest payments which are paid to the insurance company. And while repayment of the loan principal is not required, payment of the loan interest is required. If the loan interest is not paid, it will be deducted from the cash value of the policy. Also, please understand that any outstanding loans at the death of the insured will be deducted from the death benefit that's paid to the beneficiaries.

When a policy owner borrows money from the cash value of the policy, what is actually happening is something other than an actual "loan". The difference is this: In a true loan the borrower must agree to repay the principal. A life insurance policy loan does not require repayment. It is more like an advance of the money the insurer will eventually pay out under the contract.

The policy owner is receiving an advance of their own money. Another way to understand a policy loan is to view it as a line of credit against the cash value of the policy. The policy owner may, at any time while the insured person is living: 1) Take a policy loan for any amount that is equal to or less than the net cash value of the policy 2) Repay all or any part of a policy loan while the policy is in force and 3) Take and repay policy loans as often and for whatever amounts are available.

Withdrawals**:**

Most cash-value life policies also come with an option to withdraw cash value rather than take a policy loan. Be aware though, that withdrawals will permanently lower the death benefit of the contract at the time of the withdrawal.

Withdrawals are taken out premiums first and then gains, so it is possible to take a tax-free withdrawal from the value of the policy. Also, withdrawals will affect the long-term viability of the policy. The cash values removed by withdrawals are no longer earning the interest expected, so the cash values will not grow as expected. So again, be careful if you take withdrawals.

Regarding the Tax Advantages of Loans and Withdrawals:

If done within IRS Regulations, a cash-value Life policy can provide income to the policy owner that is tax-free. This can be done either through policy loans or withdrawals as I have just explained.

If the policy is set up, funded and distributed properly, according to IRS regulations, Indexed UL and Variable UL policies can provide a policy owner with many years of tax-advantaged income.

Caution Regarding Certain Promotions

Let me say that there are several individuals out there in the market today promoting certain retirement programs based entirely on Index Universal Life Insurance without actually coming out and saying it. That includes dinner seminars and many radio shows.

In search of the quick sale, many of these promoters prey primarily on people's natural dislike of taxes. The lure here is to get you to opt for tax-free future income instead of tax-deferred future income and do it without messing with a Roth Conversion.

These promoters like to press the points that 1) their program earns tax-deferred interest. 2) you can get tax-free income from the program throughout your retirement and 3) there are no limits on what you can put into the program or when you can take it out.

What these salesmen are promoting, without coming out and saying it, is the concept of paying premium into a cash-value life insurance policy for several years, accumulate cash value and then one day take tax-free policy loans from the cash value build-up.

Now while the claims made in these promotions are generally valid, they are frequently presented in vague ways not completely transparent to how Cash Value Life Insurance actually works.

Please understand that while both Universal life and Whole life insurance provide excellent features and options that are unique and beneficial depending on your needs, any type of insurance solution should be only a part of your overall retirement plan. Life insurance is NOT a retirement plan in itself.

And specifically with respect to Index Universal Life Insurance; this can be a safe strategy if STRUCTURED PROPERLY. But 90% of most regular Insurance Agents as well as certified financial planners will not know how to structure these policies to make them work properly. You will need a specialist in this field who does not sell these insurance products based on commission but rather works to serve your needs first and foremost.

Practical Uses for Life Insurance

Next let me present to you 12 of the many practical uses for cash-value life insurance. These ideas utilize both the death benefits and the living benefits of this type of insurance.

1. Income replacement for your loved ones: At your death, the income tax-free death benefit of your life policy could fund a well designed income plan for your surviving spouse and dependent children.

2. Estate liquidity: The income tax-free death benefit of your life policy could come to the aid of your estate which may have an immediate need for cash to settle federal estate taxes, or state inheritance taxes.

3. Mortgage acceleration**:** Here, your over-funded life policy could be either surrendered or borrowed against to pay off a home mortgage while still living. More on living benefits later in this report.

4. Charitable gift**:** Here, your life policy could be donated to a qualified charity, or as the policy owner, you could name a charity as the beneficiary.

5. Roth IRA alternative: High income earners who want an additional tax shelter with potential creditor/predator protection, and those who have maxed out their IRA and who have already maxed out their other qualified plans might consider the many merits of a life insurance policy as a Roth IRA alternative.

6. 401(k) contribution alternative: Maybe you're tired of contributing large amounts to your 401k every year only to find market risk, annual fees and eventually taxes will erode the value of the 401k. Well, one alternative would be to reduce your current contribution into your 401k down to the employer match. Invest the difference into annual premiums for properly structured cash value insurance with benefits for you while you are still living. I will talk more about the living benefits of cash-value life insurance later in this report.

SPECIAL REPORT TIMEOUT

In addition to hosting the Retirement Guy radio show, which I have done now for well over three years, I also conduct free (open to the public) educational events. I hold these workshops throughout the Denver area throughout the year. I have made these presentations to thousands of people both in and near retirement over the past several years. If you would like to meet me in person and learn about retirement, in a public setting, then please call or email me with a request for the date, time and location of my next event.

7. Annuity alternative: When a policy owner has a lump sum of cash that they intend to leave to their beneficiaries, a single premium UL policy provides benefits similar to an annuity during life, but has a leveraged death benefit that is income tax-free for the beneficiaries – something not offered by an annuity.

8. Pension maximization: If you retire with a pension, you will typically be given a choice of pension distributions. You can either take a maximum monthly income for your lifetime only, or you can take a smaller monthly amount over the lifetime of both you and your spouse. If you select the first choice for higher pension payout, you could also purchase a permanent life insurance product on your own life, and name your spouse as beneficiary. This would provide your spouse with a secure income in the event that you die first.

9. Annuity maximization: Perhaps you have an existing large non-qualified annuity with a low cost basis and it is no longer needed for retirement but instead you want to maximize the value for your beneficiaries. There is potential for arbitrage when the annuity is exchanged for a single premium immediate annuity (SPIA), and the proceeds of the SPIA are then used to fund a permanent death benefit using Universal Life or Whole life.

10. Creditor/predator protection: A person who earns a high income, or who has a high net worth, and who practices a profession that suffers a high risk from predation by litigation, this person may benefit from using a UL policy as a warehouse for cash, because in some states the policy enjoys protection from the claims of creditors, including judgments from frivolous lawsuits.

11. RMD maximization: Maybe you own IRAs and 401ks. And maybe, like many of my clients, you regret that starting at age 70½ you have to start taking required minimum distributions (better known as RMDs) from these accounts. And, you regret having to take these RMDs because you have no need for the money. Instead, you would prefer that this money remain untouched and pass to your beneficiaries.

12. Alternative to long-term care insurance: Life insurance death benefits can be unlocked by adding living benefit riders. Activate the death benefit for long-term care, chronic illness and even critical illness coverage. So instead of draining your savings and retirement accounts to pay for unexpected health changes you can instead leverage a life insurance policy to pay for care in a tax-efficient manner.

In the market today, we have some very innovative Combination products, which use life insurance or annuities as the foundation and which have accelerated benefits for LTC protection. These products appeal to people who understand the win-win approach: Win if you need LTC benefits and win if you don't.

The concept is that in the event you don't need the LTC benefits, your unused premiums won't be wasted. But instead, they will be distributed to beneficiaries in the form of a leveraged income tax free death benefit.

Bad Decisions, Objections and Misconceptions

Life insurance is a fairly straightforward financial product with many practical uses. I will elaborate on some of these uses later in this report. Nonetheless, there are some bad decisions, objections and misconceptions out there about the purpose, features and cost of Life Insurance. To demonstrate, let me give you six examples.

Bad Decision: I will buy life insurance through the Internet. A new study by LIMRA and LIFE Foundation finds that increasingly, consumers are shifting toward buying insurance products directly through the internet, mail or over the phone. I can't stress enough what a mistake this could be in your retirement planning process and how important it is to pursue life insurance from a qualified insurance or financial professional face-to-face.

Objection: I don't believe in life insurance. This objection usually comes from a person who is not aware of the many practical uses of life insurance. This person also believes they will not encounter any situation where he or she might benefit from the coverage. There's often something deeper behind this objection. I think part of the issue is that the person is in partial denial that, in reality, something bad could really happen, and if it did, there are people in their lives who will be negatively impacted.

Misconception: When you're older you can't get life insurance at a reasonable cost. This is what many people think when they reach, let's say, age 60. They just believe it's so expensive they don't want to even think about it. But when a qualified advisor comes into their life and shows them that premiums are actually quite affordable, these people realize they can afford life insurance after all. Also, as people age they start worrying they can't qualify for coverage. With issues like high blood pressure for example, people automatically think that's a major illness so they can't get any coverage. But that's just not the case at all.

Objection: I can't afford it**.** The LIMRA study I referred to earlier, found that the cost of life insurance is the top reason people give for not having enough life insurance. If I get this objection from a client who needs the insurance coverage, I get creative in freeing up my client's assets. That may require restructuring their debt, or determining if they have nonproductive assets in order to free up cash flow. My point is that a good financial advisor will always help you find the dollars if the need for life insurance exists.

Misconception: Retired people do not need life insurance. This myth pops up frequently in the Wall Street media suggesting that once you're close to or in retirement, you can drop all your life insurance. On this point, it's my opinion that once all the many practical uses for both the death benefits and the living benefits of cash-value life insurance are understood, the well educated retiree will usually see the light and take proper action.

Aggressive Sales Pitch. Here is the aggressive agent says "All retired people need life insurance." Some agents will start with the life insurance product and then work back to the client's needs. The better action is to identify the client's need first and then determine the most appropriate product to meet that need. And, sometimes, that analysis will lead to the conclusion that some retirees actually do not need life insurance.

Life Planning

Now when it comes to life planning, it's ironic to think that maybe you have made an effort to plan for your loved ones' financial security, but then you fail to inform people that you have done so.

Interestingly, it's estimated that between one-quarter and one-third of all life insurance policies go unclaimed upon the death of the insured. As a result of not providing information about life policies, hundreds of millions of dollars annually go unclaimed by beneficiaries who are not aware that a policy exists.

Here are some simple tips to keep this from happening to you:

1. Talk to your beneficiaries and family members about any life insurance policies that you have.
2. Keep insurance policy documents either in a safety deposit box or in a clearly labeled file cabinet (or fireproof safe) in the home.
3. In the event of your demise make sure that your beneficiaries and family members have the contact name of a person who has knowledge about your policy. This person could be of invaluable service by helping the family or beneficiary navigate the claims process for collecting the death benefit.

In closing,
Let's review some of what I've covered in this Special Report on Life Insurance:

First; unquestionably the best way to leverage a portion of your assets, in a tax-advantaged way, for the benefit of your heirs, is to utilize what's called Permanent Cash-Value Life Insurance. And Whole Life and Universal Life insurance are the most common kinds of cash-value life insurance in today's market.

Your best choice for how to utilize life insurance in retirement will become clear only after consulting with a qualified insurance and financial advisor who can evaluate your entire retirement situation before making any recommendations.

So, one reason why you might want to contact me after reading this report is that you want my help as a Retirement and Insurance Specialist in determining how to best utilize the living benefits and death benefits of life insurance in your retirement planning process.

I wish you a long, happy and financially secure retirement. And if I can be of any assistance, please do not hesitate to contact me.

Sincerely;
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