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MDRT Minute

How to Use the Low-Interest Environment to Drive Life Sales

Life insurance as a legacy for grandchildren
Annie, 62, has a USD 100,000 CD that she doesn't need for retirement income. The USD 100,000 grows at a hypothetical 2 percent annually, and Annie will pay taxes on this gain each year. Upon her death, the balance would be divided equally among her six grandchildren. With a CD, if Annie died at age 62, each grandchild would receive USD 16,950 (USD 101,700 ÷ 6). However, with a permanent life insurance policy, Annie more than doubles her legacy gift to each grandchild in the first year and can expect significantly higher, tax-free bequests to her grandchildren through her life expectancy.

Using life insurance to cover final expenses
John and Leslie, both 70, have a sound financial plan, which includes a modest inheritance for their children. However, they remain concerned about leaving a financial burden upon their deaths. They split their USD 20,000 savings to each purchase an individual permanent life insurance policy with a leveraged death benefit that can be used to help cover their final expenses. With a total insurance benefit of USD 32,600, they will keep their children's inheritance intact. Best of all, Leslie and John will maintain control over both policies throughout their lives, preserving the flexibility to change beneficiaries or exercise the policies' surrender value should their needs change.

Using life insurance to protect social security benefits
In retirement, a married couple often counts on two social security checks. However, when one spouse dies, the surviving spouse is entitled to collect the greater of their own benefit, or a widow's or widower's benefit equal to 100 percent of their spouse's benefit, providing they were married 10 years. Permanent cash value life insurance can provide cash at death (generally income tax-free), and provide income for the surviving spouse. Something to consider: Seventy percent of baby boomer women will become widows. And because they live longer and typically marry men older than themselves, they may be widows for 10, 20, even 30 years. With the recent drop in markets and housing, many of the baby boomer men are way underinsured. Who will pay the consequences? Women! Go find a widow who is living well and a widow who isn't. The difference is life insurance.

Life insurance is a tax issue as well
Most people have the majority of their assets in qualified or pretax accounts such as 401(k) plans, TSAs and IRAs. These vehicles offer tremendous tax advantages in the accumulation phase. However, in the distribution phase they can be a tax nightmare, since all distributions are fully taxable. Although Roth IRAs are effective, they do not allow unlimited contributions. Tax-free bonds can work, but you need to be very careful, since states and municipalities are having significant financial issues. Additionally, as interest rates rise, the value of the bonds will go down. Permanent life insurance that builds cash value can be a great tool in this situation. The premiums are paid with after-tax dollars. The policy grows tax deferred, and you can access those cash values before or after retirement on a tax-free basis as long as it is structured properly. Upon death, the death benefit is paid to the beneficiaries tax-free.

Life insurance is a wealth transfer issue
Lee and Mary have a USD 20 million estate. As you know, with the current USD 5 million personal exemption, they can transfer a USD 10 million estate tax free to their children. The real question is what they should do with the other USD 10 million. What if they put the USD 10 million into a joint lifetime income annuity? They could use the income from this annuity to buy a USD 25 million survivorship life policy inside of an irrevocable life insurance trust. When Lee and Mary both die, the lifetime income annuity completely disappears from their estate. The USD 25 million life insurance policy now springs up in the irrevocable life insurance trust — completely income- and estate tax-free. So now, the family gets the USD 10 million exemption tax-free, as well as the USD 25 million survivorship policy income and estate tax-free as well. You just turned a USD 20 million taxable estate into a USD 35 million tax-free estate.

***Tom Hegna, CLU, ChFC**, has spoken, at the Top of the Table meeting and the MDRT Experience meeting in Singapore. He is author of the bestselling book "Paychecks and Playchecks." Nobody knows retirement income better than Hegna — he has dominated the top main platforms of the insurance industry. A former first vice president of New York Life Insurance Company, he helped drive sales in annuities, mutual funds and life insurance to record levels. He now speaks for Fortune 500 companies around the world to educate and motivate their producers and employees. Purchase his entire presentation at http://www.mdrtstore.org/.*