



It's Time to Reconsider Owning Life Insurance During Retirement

The conventional wisdom among investment advisors is that if clients have planned appropriately, they will not need life insurance in retirement. It is commonly thought that upon reaching retirement, they will be free of debt, have plenty of assets on hand to replace lost income and leave to heirs as a legacy. This sounds like a reasonable assumption on paper, but not all assets are equal when it comes to transfer planning. To account for this, investment advisors with clients that have sufficient investment assets for retirement might still want to consider life insurance as an asset in a retirement portfolio.

When it comes to legacy planning, some assets pass on less value than might be expected because their transfer can produce extra taxes, costs, commissions, or management fees. Problems may arise with other assets if their value is linked to a market that is down in value at the time that funds are needed. A good legacy plan looks at each client's assets and decides which should be consumed and which should be retained as a potential legacy asset.

Differences Among Assets

Assets come in all shapes and sizes, and so do their growth and tax patterns. There is no crystal ball to show the future of a portfolio, so holding diversified assets has always been considered the surest bet for general portfolio wellness as they will generally have non-correlated returns. This means that while some assets may decrease in value, others may increase in value – providing balance to an overall portfolio.

When people think of assets, they tend to only think of stocks, bonds, mutual funds, retirement plans/IRA, and real estate. They don't often think of life insurance as an asset, but instead as an expense. However, a life insurance policy is indeed an asset providing non-correlated returns and liquidity. Unlike other assets however, life insurance can provide an expected, predictable, and sometimes guaranteed value depending on the policy type. Life insurance also has unique tax features not available to other assets.

Features of Life Insurance That Can Result in Passing on Wealth More Efficiently

If your clients want to avoid losing value during the wealth transfer process, they need to look closely at their assets and determine which ones have features that make for efficient wealth transfer. Features worth considering include the following:

- Avoids expenses and delays of probate
- Easily divisible among heirs
- Potential to avoid the claims of creditors
- Date of death value that is received by the heirs income tax-free
- Potential to avoid federal estate and state death taxes
- Predictable value not linked to market performance
- Provides growth/leverage potential

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Properly structured life insurance policies have all these features because death benefits are paid in cash and they can be used to accomplish many different objectives. To transfer your clients' wealth efficiently and with as little waste as possible, you need to consider the taxes, costs, and problems your clients' assets will trigger during the transfer process and implement strategies to minimize them.

Furthermore, the Retirement Confidence Survey by EBRI (Employee Benefit Research Institute) reported that confidence in the ability to afford various aspects of retirement continues to decline. The survey noted that a greater number of people are not at all confident in their ability to pay for medical or long-term care expenses. Unsurprisingly, these costs have also been rising over time. Increasingly, life insurance is purchased with long-term care or chronic illness riders to help pay these expenses. Wherein, a life insurance death benefit can be accelerated to help pay these expenses on an income tax-free basis, thus avoiding liquidation of investment assets.

How DBS Can Help?

To learn more about how your clients might benefit from adding life insurance to their legacy plans, call Terri Getman, JD*, CLU, ChFC, AEP (Distinguished), a DBS in-house advanced case design resource. To learn more about various long-term care and chronic care riders, contact your dedicated DBS Case Design Analyst.

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