Do You Multitask? So Does Today's Life Insurance

If you're pondering where your retirement income might come from you may have missed a source you already have: your life insurance policy.

Today's life insurance policies may have outpaced the perception of the public: they multitask. Traditional use of a life insurance policy meant buying it to help protect the financial interests of surviving family members. In addition to the death benefit, today's life insurance can help provide supplemental income and long term care protection.

Using Your Life Insurance Policy For Retirement Income
What most folks don't know is that cash withdrawn from a life insurance policy is accounted for as the cost basis coming out first, not the gain. Taking a simplified example, if you had $250,000 of cash value in your life insurance policy and you paid $150,000 in premium since it was issued, you would have a nominal increase in the cash value of $100,000 within the policy. The entire accumulated amount within the policy may be withdrawn to use as retirement income tax free, as long as the policy owner is careful to keep the policy in force. That's a valuable way to supplement your retirement income. Withdrawals of earnings or other taxable amounts are subject to income tax and, if made prior to age 59½, may be subject to an additional 10% federal tax penalty. Early withdrawals reduce the death benefit and may be subject to surrender charges. The reduction of the death benefit may be more or less than the actual amount of the withdrawal.

Covering Long Term Care Risk Through Life Insurance
Life insurance has always offered a death benefit for survivors. It can also now serve as financial vehicle to help counter perhaps the biggest financial risk facing retirees—long term care costs. Some policies are now available with an optional long term care insurance rider. The rider involves some additional questions and separate underwriting, and is available only at policy issue for an additional fee. It functions as an accelerated death benefit rider, reducing the death benefit dollar-for-dollar of benefits used. Many Baby Boomers who expect long term care costs to skyrocket as more people demand such services at the same time 20-30 years from now are using life insurance to help hedge this risk.

As an example, let's say you had a $1 million life insurance policy with a long term care rider and at any point after the policy was issued, the insured needed long term care, perhaps at home or in a facility. Assuming the policy owner chose a 2% option, 2% of the death benefit would be available per month to pay for long term care expenses until the policy limit is exhausted. That's up to $20,000 per month during the benefit period toward long term care expenses paid by your life insurance policy—tax free!

Innovative Cash Accumulation Features
The way cash value can be accumulated in some permanent life insurance policies may also surprise you. Policies are now available which are linked to an index, such as the Standard & Poors 500 Index, but with, for example, a 10% ceiling and a 0% floor. Policy owners cash value is protected from negative returns, but are capped at the 10% crediting rate, which may change during the duration of the life insurance policy. Therefore, the policy owner enjoys the opportunity to be credited for the growth of this index to potentially grow the cash value in the policy.
Today's permanent life insurance policies are innovatively designed to multitask—just like their owners. And unlike yesterday's life insurance, you may find there's more of an opportunity to use the benefits of your policy without the need to die first.

Creditor Protection
In Florida, life insurance policy owners may benefit from an additional feature of their life insurance policy, which isn't even offered by their insurance company—it's a benefit codified in Florida state law. The cash value of life insurance (which includes annuities) is protected from creditors. Properly structured, this protection may extend to the cash value from a life insurance policy even after the cash is distributed from the policy and may also extend to beneficiaries after the death of the policy owner. Doctors and other specialized professionals, for example, often use thoughtful financial planning techniques to protect the assets they have accumulated over their career from unexpected risks. Life insurance and annuity contracts provide the peace of mind that these assets are beyond the reach of prospective creditors.

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