VFO INNER CIRCLE

SPECIAL REPORT

THREE REASONS LIFE INSURANCE SHOULD BE PART OF YOUR WEALTH PLAN

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KEY TAKEAWAYS

- Life insurance can help provide for loved ones.
- It can provide cash to help with liquidity problems.
- Certain business-related concerns can be addressed with life insurance.

As an investor with significant assets, it's important to engage in wealth planning that addresses the broad range of your goals, needs and preferences. One of the most versatile and often-used tools in wealth planning efforts is life insurance.

Here's why—and how you can start thinking about life insurance and whether it should be part of your overall wealth planning strategy.

The importance of wealth planning

To achieve your personal and financial goals you will likely need to engage in wealth planning—a comprehensive planning process designed to address the many (and often disparate and complex) financial issues you face. Wealth planning incorporates state-of-the-art technical expertise with legal strategies and financial products to work together in a synergistic manner based—and this is the key element—around your specific situation.

You can test that idea by asking yourself a few questions:

Do you want to make certain the financial welfare of your loved ones and the causes you care about are properly taken care of if you're not around?

Do you want to be confident you have the wealth you need (whether it's for business purposes or in retirement) if you live past 90 or 100 years old?

Do you want to ensure that your business thrives if you lose essential personnel or if an equity partner dies?

If you answered "yes" to any of these questions, you should be using wealth planning.

The aspect of wealth planning that really differentiates it from less comprehensive planning is what we call the human element—which means you take center stage in the process, and any technically brilliant solutions are carefully deployed around your specific situation.

Bottom line: Wealth planning done right is grounded in you and what you most want and need—including what you need and want for the people and institutions you care about most. The legal strategies or financial solutions are never the main focus—the main focus is on you.

Life insurance as a tool of wealth planning

The versatility of life insurance in wealth planning efforts can be compared to a Swiss Army knife. Even the most basic model has many uses and applications—flossing teeth, snipping thread and opening bottles, among them. And like that highly recognizable tool, life insurance can serve multiple purposes and get multiple jobs done—more on that below.

Don't get us wrong, though: Life insurance isn't some sort of magic bullet for all financial-related matters, just as a Swiss Army knife isn't the ideal tool for all jobs (try to butcher a whole chicken with one instead of say, an eight-inch chef's knife and you'll get the point!). Life insurance is merely a potentially very formidable tool used as part of your wealth planning—one with enough versatility to serve in a powerful supporting role.

Why, exactly? In general, life insurance is capable of generating three powerful results:

1. **Liquidity.** Upon death, the life insurance policy automatically converts to cash—enabling greater flexibility in estate administration and post-mortem planning, as well as in certain business situations.
2. **Leverage.** With respect to most successful entrepreneurs, the relationship between premium dollars paid and insurance proceeds received often favors the insured. In other words, there is usually more money paid at death than was paid in premiums during life. In some circumstances, there's the ability to generate tax-advantaged wealth that can be used before death for various purposes (including business needs).

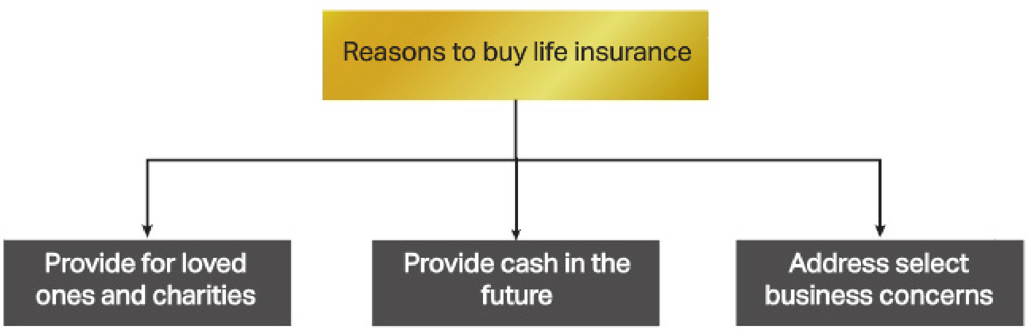
[redacted]

3. **Certainty.** Presuming the life insurance has been properly structured and adjusted and refined (when necessary), the expected benefits will be there when you want or need them.

Now consider a few ways life insurance can be used to help you achieve certain goals and alleviate serious concerns that many investors have. Very often, life insurance is the most assured and cost-effective way for you to provide three outcomes (see Exhibit 1):

- For your loved one and the causes you care about
- Cash to address personal needs or wants in the future
- Money you require to address selected critical business concerns

EXHIBIT 1
Three Main Reasons to Buy Life Insurance



Let's look at each reason in depth.

Provide for loved ones and charities

Thinking and talking about your own death might be disconcerting—it is for a lot of people. But that doesn't change the fact that one day (hopefully a long, long time from now) you will die. When you do, some financial issues might crop up.

Example: If you've been very successful, there may be estate taxes due upon your death. Life insurance is commonly used to provide the funds needed to cover estate taxes. This is referred to as estate liquidity. Your heirs get cash so they aren't forced to sell assets to pay the taxes.

In some cases, people buy life insurance to build an estate in the first place. They're looking to make sure their loved ones are financially protected the way they want them to be, and they use life insurance to that end. For example, if you're an entrepreneur, illiquidity could mean your family doesn't have money to speak of until you sell your business. Your premature death could therefore be especially devastating—and so life insurance is used to create wealth.

Another issue in this category is if you want to transfer your wealth in equal amounts to your various heirs—referred to as *estate equalization*. Example: Say you have two children. One of them is involved in the business you own and is doing quite well. The other isn't working in the company—and doesn't want to. It could be a bad financial move to give half of the business to each child. Instead, you could choose to give the company to the heir who will one day run it, and use life insurance to provide a comparable amount of wealth to the other child.

Life insurance can also be used to support charities you care about. You can, for instance, make a charity the beneficiary of a life insurance policy. If you're using certain types of charitable trusts, you might want to incorporate life insurance into the strategy so that your family does not get anything less because of your philanthropy.

Provide you with cash in the future

Another key reason life insurance can be such a versatile wealth planning tool is that some policies have what's referred to as a cash account. A portion of the premiums are contributed to the account, and those funds grow tax-deferred.

Over time, tax-deferred compounding can potentially result in a sizable balance. Indeed, the ability for the money in the cash account to grow without the drag of taxes can potentially result in substantially more than the amount of money that might accrue in a taxable investment account.

Also, depending on how the policy is structured and paid for, the money you withdraw might never be taxed. For example, instead of just taking out the money you need for your company, you might take a loan from your life insurance policy. Depending on the situation, you may or may not end up paying back the loan. Nonetheless, by approaching it this way, you don't pay any taxes on the growth of your investments.

What's more, some business owners can potentially supercharge the amount of money they will get in retirement by having life insurance as part of their qualified retirement plan. This approach only works for certain entrepreneurs and their companies. However, when it's applicable, it can result in very large income-tax deductions and the business owners can get a very large percentage of the money in the plan.

Providing the money to address select business concerns

If you're a business owner, you may have a key employee in your company who is very important to the success of the business—your top salesperson, perhaps. If he or she were to prematurely die, your company would likely suffer. To effectively deal with this scenario, your company could purchase life insurance on you and on the key employee. This can give the business the capital needed to keep going in the wake of that death, as well as to find a suitable replacement.

Or say you have equity partners and one of them prematurely dies. You probably don't want to be in business with his or her heirs. A legal strategy called a buy/sell agreement can avoid that predicament by setting out the valuation of the company or how to determine the valuation that enables a buyout of the heirs. Life insurance is often used to fund that buyout.

Life insurance can also sometimes be used to fund executive benefits (by leveraging the tax-deferred internal buildup possible in some policies). This way you can provide deferred compensation to valuable employees. This can help motivate executives and increase retention of key people. There are a few different strategies that can be used to get these outcomes, but they all rely on—you guessed it—life insurance.

Conclusion

Wealth planning is meant to help you address a multitude of financial concerns—and given the versatility that life insurance can offer, it's often a major component of wealth planning efforts done by the affluent and their advisors. It's not the only solution you likely need, but it could be one that plays an important role in helping you achieve your key goals.

Disclaimer: This is general advice. Talk to an insurance professional for specific guidance to determine what is accurate and relevant for your situation.

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Unless otherwise noted, the source for all data cited regarding financial advisors in this report is CEG Worldwide, LLC. The source for all data cited regarding business owners and other professionals is AES Nation, LLC.

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