

# Cash Value Life Insurance



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Cash value, or permanent, life insurance is life insurance that is designed to be kept until your death — whenever that may be. Part of your premium pays for the “pure” insurance coverage and expenses, and the balance is held by the insurance company in a cash value account. The type of permanent life insurance you buy (e.g., whole, universal, variable) will influence the pace at which the cash value portion of your policy grows. The interest and earnings grow tax deferred until you withdraw the funds, and may be part of the income-tax-free death benefit if you die. However, these policies may require a higher cash outlay than term life policies.

## WHO SHOULD CONSIDER CASH VALUE LIFE INSURANCE?

Cash value life insurance is well suited to cover long-term needs, because coverage continues for the rest of your life. You won’t need to renew your policy periodically, nor will you need to provide proof of insurability (e.g., a medical exam) once the policy is in place. Cash value insurance allows you to lock in a premium schedule, so you won’t have to worry about rising premiums as you get older or your health deteriorates.

## ADVANTAGES OF CASH VALUE LIFE INSURANCE

As with any life insurance policy, the purpose of cash value insurance is to provide adequate financial resources for your surviving loved ones in the event of your premature death. Knowing that this protection is in place may allow you to sleep a little easier at night.

A cash value policy is similar to an annuity in this respect. All of the interest and earnings on the policy’s investments are allowed to grow free from income taxes until you surrender the policy or begin to withdraw your funds. Depending on the amount credited to the cash value account, you can accumulate a substantial amount of equity in your cash value policy over a period of years.

Generally, you’ll have the right to take a loan from the insurance company, secured by the cash value in your policy. A fixed or variable interest rate will be charged. Keep in mind, however, that if you take a loan against your cash value, the death benefit available to your survivors will be reduced by the amount of the loan. In addition, policy loans may reduce available cash value and can cause your policy to lapse. Finally, you could face tax consequences if you surrender the policy with an outstanding loan against it.

With most cash value life insurance, you can take withdrawals from your cash value account. Policy withdrawals may be tax free up to your basis in the policy (the amount you've paid into the policy in premiums). As with loans, the amount of the withdrawal from your cash value account will reduce the death benefit available to your survivors, as well as the available cash value, in some cases by an amount greater than the withdrawal amount. Different tax rules apply to withdrawals and loans from cash values if the policy is a Modified Endowment Contract. In that case, withdrawals and loans are considered made from earnings first, and would be subject to income tax.

### **DISADVANTAGES OF CASH VALUE LIFE INSURANCE**

The premiums for cash value insurance usually cost more than for a comparable amount of term insurance in the early years of the policy. The reason is that with a cash value policy, you're initially paying more than is currently needed to pay for the insurance, so that you can build a fund (the cash value account) to help offset the higher insurance costs you'll need to pay when you're older.

If you buy a variable life insurance policy, the underlying investments in the cash value account expose you to the possibility of financial loss as well as financial gain. It all depends on how those investments fare. Any losses will cut directly into your cash value account and may affect the amount of the death benefit, although a minimum death benefit is usually guaranteed. (Guarantees are subject to the claims-paying ability of the insurer.)

Note: Variable life insurance and variable universal life insurance policies are offered by prospectus, which you can obtain from your financial professional or the insurance company. The prospectus contains detailed information about investment objectives, risks, charges, and expenses. You should read the prospectus and consider this information carefully before purchasing a variable life or variable universal life insurance policy.

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Gerald Hall, WMS, serves as a principal and senior financial advisor in the HBKS® Fredonia, New York, office. He specializes in providing financial solutions for business owners and professionals. As a former business owner, he understands the challenges entrepreneurs face and works with his clients to help them manage and grow their enterprises.

Jerry began his financial services career in 1994. He worked at MetLife and Merrill Lynch before joining Raymond James Financial Services in 2002 as an investment advisor representative. He established his own firm in 2002. He joined with James Arcoraci in 2010 to create Comprehensive Wealth Solutions (CWS), then merged CWS into HBKS® in 2016.

Jerry graduated from Jamestown Business College in 1988 with a degree in business administration and a minor in accounting. He holds the Wealth Management Specialist designation. He is an active member of the Rotary Club and sits on the boards of directors for Boys and Girls Club of Northern Chautauqua County and the Northern Chautauqua Community Foundation.

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