TRIATHLON PARTNERS LLC | Investment Management Financial Planning Wealth Advisory

# You Didn't Die!! What to do with your Life Insurance

A long time ago, in a galaxy far, far away, you purchased permanent insurance, and watched a lot of Star Wars movies. The financial safety net and tax deferred growth made it an appealing product. The responsibilities that precipitated the purchase have dwindled, and recent graduations, manageable mortgages, and the increasing probability of grandchildren don't awaken you in a cold sweat in the middle of the night. Permanent insurance is still in force and premium bills keep on arriving. What are your options?

1. The best choice is to contact Triathlon Partners to explore the possibilities to determine which best meets your financial objectives. For the impulsive and DYIs check out the quick and dirty bullet points.
2. The policy still grows tax deferred and with an impending reversion of the lifetime estate tax exemption the death benefit might be unexpectedly timely. The cash value and death benefit should grow whether premiums are continued or not for a policy purchased twenty years ago. The dividend makes it an excellent fixed income proxy in an investment portfolio.
3. Surrender the policy. The gains are taxed as ordinary income. Not very enjoyable for those living in the 32% federal tax bracket in high tax states.
4. Create an annual income stream from the cash value. The first dollars withdrawn are the basis and are tax free. Then instead of withdrawing gains, it is often advisable to borrow the gains from the policy. This has two "benefits". There is no tax on the borrowed money, and it still earns interest/dividends. Interest does need to be paid, and that rate in the fine print varies across insurers/policies. An 8% lending rate is not uncommon, however even with current market interest rates at multiyear highs, most whole life policies are growing at 4.5-5.5% a year. This annual 3% deficit, continued debt service and withdrawals quickly erode the cash value and death benefit of the policy. If the death benefit goes to zero, then the policy is surrendered, and all the profits withdrawn are now taxed as income. The lifetime tax advantaged income stream promised at purchase can morph into a tax bomb.
5. Insurance policies can be transferred to other insurance products and annuities without triggering a taxable event. Review the fine print on your policy and if the withdraw terms are egregious there are several strategies to consider. The new product can/should have a wider variety of investment options, opportunities to earn more than 4.5-5.5% a year, lower cost of self-lending and enhanced payout percentages. Annuities tax treatments vary depending on the withdraw terms,

The obvious best option is number 1. Permanent life insurance is a complex product. To maximize value and adapt to your family's changing financial objectives, its versatility should be embraced. Our goal at Triathlon Partners is to engage, educate and empower our clients, enabling them to make a confident decision at the appropriate time that best meets their objectives.

Contact Triathlon Partners to schedule a review of your current policies and create a strategy that maximizes value. To paraphrase Ben Franklin, an ounce of preparation is worth a pound of solution.

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