TRIATHLON PARTNERS LLC | Investment Management Financial Planning Wealth Advisory

What is your Life Investment Plan?

Life insurance seems like a dirty word. A topic many want to avoid, it involves death, monthly premiums, and present company excluded, slick salespeople. Instead, I offer my clients Life Investment Plans (LIPs),

The focus of life insurance is the death benefit. The premium is a bill for insurance. Even many whole life policies with guaranteed growth aren't worth more than the total premiums paid until year 10. After twenty to thirty years of premium bills, you are left with a huge death benefit and a decent cash value. The death benefit has grown to a size beyond your needs, as your responsibilities have dwindled. The most common way to access the cash value is through borrowing. This avoids income taxes, but it also involves interest rates as high as 8%. Paying 8% to borrow your own money seems wrong, especially since the return on the money left in the policy might only be 4.5%. The cash value of some whole life policies is a mirage, as you can only receive 65% of its value in cash.

Contributing to a LIP involves a commitment that focuses on investing the annual premium. The premium's role is to invest in low volatility investment options with tax deferred growth, and secondly purchase a death benefit. It also involves speaking with Triathlon Partners, who know the policies with the best lending terms and investment options. For permanent life insurance, we always include an Indexed Universal Life Plan (IULP) in our analysis when determining the best option to meet your objectives. The best IULPs have caps on borrowing rates and several investment options.

Example: A responsible 25-year-old wants to invest $5,000 a year for 20 years for their retirement at age 66. They also need $500,000 of life insurance. This is a total investment of $100,000.

LIP: The investment in the policy returns 6.42% a year, every year. However, since the plan also includes permanent life insurance, the true return is 5.58%. In 40 years, the policy has a cash value of $550,390, or a death benefit of $671,000.

Life insurance: The twenty-five-year-old instead buys two consecutive 20-year term policies. The first twenty years they invest $4725 ($5k minus the $275 insurance premium), then the next twenty years pay $600 for the second policy. The money grows at 6.42% (same investment as the LIP). In 40 years, this net investment has a value of $608,182. After capital gains tax of 23.9%, the after-tax cash in hand is **$485,411**, and there is no longer a life insurance policy in force.

Instead of withdrawing the cash value of the LIP, triggering income tax on the profits, the maximum amount allowed from the policy is borrowed. As a residual cash value needs to remain to keep the death benefit in force. If the policy has zero death benefit, it is no longer considered a life insurance policy, and the IRS treats all the withdrawals/borrowed money as income. At age 66, **$538,356** can be withdrawn from the policy, plus a residual death benefit of **$123,000** remains in force.

Final score at age 66: **LIP $538,356 cash on hand plus a death benefit of $123,000** vs a post-tax cash in hand **$485,411 plus an expired term insurance policy.** A strong result for your $100,000 investment commitment in the LIP. Triathlon Partners' investment strategy focuses on after-tax cash flow. This example is based on a real insurance policy, contact Triathlon Partners at the corner of Smart & Strategic Investing to request a copy.

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