LIFE INSURANCE WITHIN AN INVESTMENT PORTFOLIO

A well diversified portfolio may benefit from a market oriented life insurance contract. The ability to transfer the funding risk of a chronic illness to a contract that would also offer tax-deferred growth and tax-free access of cash values may serve to protect a diversified portfolio from timing risk.

Life insurance contracts can allow the use of the death benefit for living purposes such as in the event of a chronic illness. This typically is shown as a % of the death benefit being available to owner of the contract. For example, 2% of the benefit would be available upon eligibility for the rider on a monthly basis and would last greater than four years.

If the investment portfolio is relied upon for income, having a tax-deferred asset that would limit losses in declining markets may provide an additional source of tax-free income during a period of declining returns. The avoidance of selling into a retreating market may lengthen the life of the portfolio.

Having life insurance inside an investment portfolio that contains qualified money such as an IRA may enable a Roth conversion to a surviving spouse. The life insurance could be used to pay the income tax due. The surviving spouse would enable voluntary tax-free income instead of government mandated required minimum distributions. The Roth could be left to grow and used as a legacy tax-free income stream to children and grandchildren.

Benefits

Living

- Chronic illness benefit that would be accessed rather than investment portfolio
- Additional potential tax-free income on a continuous basis
- Potential tax-free income when investment portfolio is in a declining market

Legacy

- Roth conversion funding opportunity
- Benefit upon death to increase legacy
- Benefit upon death to replenish investment portfolio during declining market

Other Considerations

- Since a ROTH conversion strategy as outlined is dependent upon a death benefit, it will offer less and less benefit the longer the IRA owners lives.
- Chronic illness riders eligibility is usually dependent upon inability to perform two of six of activity of daily livings. In addition, some riders require a permanent condition.
- The ability to access tax-free income is contingent upon amount of premium and length of contract. This is usually at least ten years after initial purchase.
- Case Study: Client is male age 65 and spouse is age 62. Current Portfolio is estimated at $5,000,000. The investment portfolio consists of qualified and non-qualified accounts and is well diversified among equity and bond holdings. Assuming good health and allocating less than 1% of the portfolio could result in the following.
  - An internal tax-free rate of return at life expectancy of greater than 5.5% for both clients
  - A pool of money available for chronic illness of $1,000,000 per client.
  - Potential growing tax-deferred cash value available to supplement income during market swings
  - Roth conversion opportunity for surviving spouse in event of premature death
  - A creation of a $1,000,000 legacy upon death for each client if not leveraged during life

PEXB PINNACLE EXECUTIVE BENEFITS