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"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case." - Robert G. Allen

I hope you've had a great summer! Enjoy the quarterly newsletter!

Jason

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Life Insurance Options After Retirement

Life insurance can serve many valuable purposes during your life. However, once you've retired, you may no longer feel the need to keep your life insurance, or the cost of maintaining the policy may have become too expensive. In these cases, you might be tempted to abandon the policy or surrender your life insurance coverage. But there are other alternatives to consider as well.

Lapse or surrender

If you have term life insurance, you generally will receive nothing in return if you surrender the policy or let it lapse by not paying premiums. On the other hand, if you own permanent life insurance, the policy may have a cash surrender value (CSV), which you can receive upon surrendering the insurance. If you surrender your cash value life insurance policy, any gain (generally, the excess of your CSV over the cumulative amount of premium paid) resulting from the surrender will be subject to federal (and possibly state) income tax. Also, surrendering your policy prematurely may result in surrender charges, which can reduce your CSV.

Exchange the old policy

Another option is to exchange your existing life insurance policy for either a new life insurance policy or another type of insurance product. The federal tax code allows you to exchange one life insurance policy for another life insurance policy, an endowment policy, an annuity, or a qualified long-term care policy without triggering current tax liability. This is known as an IRC Section 1035 exchange. You must follow IRS rules when making the exchange, particularly the requirement that the exchange must be made directly between the insurance company that issued the old policy and the company issuing the new policy or contract. Also, the rules governing 1035 exchanges are complex, and you may incur surrender charges from your current life insurance policy. In addition, you may be subject to new sales, mortality, expense, and surrender charges for the new policy, which can be very substantial and may last for many years afterward.

Lower the premium

If the premium cost of your current life insurance policy is an issue, you may be able to reduce the death benefit, lowering the premium cost in the process. Or you can try to exchange your current policy for a policy with a lower premium cost. But you may not qualify for a new policy because of your age, health problems, or other reasons.

Stream of income

You may be able to exchange the CSV of a permanent life insurance policy for an immediate annuity, which can provide a stream of income for a predetermined period of time or for the rest of your life. Each annuity payment will be apportioned between taxable gain and nontaxable return of capital. You should be aware that by exchanging the CSV for an annuity, you will be giving up the death benefit, and annuity contracts generally have fees and expenses, limitations, exclusions, and termination provisions. Also, any annuity guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company.

Long-term care

Another potential option is to exchange your life insurance policy for a tax-qualified long-term care insurance (LTCI) policy, provided that the exchange meets IRC Section 1035 requirements. Any taxable gain in the CSV is deferred in the long-term care policy, and benefits paid from the tax-qualified LTCI policy are received tax free. But you may not be able to find a LTCI policy that accepts lump-sum premium payments, in which case you'd have to make several partial exchanges from the CSV of your existing life insurance policy to the long-term care policy provider to cover the annual premium cost.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.