insurancenewsnet.com
Your industry. One source.™

INN EXCLUSIVES

December 13, 2019 INN Exclusives Views: 1,773

How A Life Policy Can Send A Grandchild To College

InsuranceNewsNet

By Jason Wellmann

Leaving a legacy is a top priority for many people. The death benefit proceeds from a life insurance policy can be an important financial resource for your clients' loved ones, allowing them to address a number of needs, including debt, college funding or other financial obligations.

But what if your clients could provide their beneficiaries with a similar type of financial assistance while they are still alive, all in a tax-efficient manner?

While some clients may choose to pass a legacy to beneficiaries through the life insurance death benefit, it may be appropriate for other clients to choose to pass on wealth to their loved ones while they are still living.

Let's take a look at a hypothetical example to see how an affluent client could use an IUL policy to assist their loved ones before the client dies, and use that policy to help those family members build a more stable financial future.

Exploring The Additional Benefits Of IUL

Meet Sandy and Mike. They have a 2-year-old granddaughter named Emma. Given the rising cost of college, Sandy and Mike are concerned how their daughter Jessica and son-in-law, Todd, both 36, will fund Emma's college education.

Sandy and Mike want to begin to pass on wealth to Jessica and her family. They have planned well for their retirement, so they are financially able to help Jessica's family without jeopardizing their own financial future.

Their financial professional and tax advisor suggest that Sandy and Mike each gift $15,000 (the annual gift tax exclusion) for the next 17 years to Jessica, which she will use to pay the premium on an IUL policy.

This will provide the death benefit protection for Jessica's family –as well as the opportunity to build accumulation value. Any available cash value can then be accessed through policy loans or withdrawals to help supplement a wide range of future financial responsibilities, including Emma's college expenses.

In this scenario, Jessica's IUL policy – funded by a $30,000 annual gift from Sandy and Mike – may be able to provide the following financial benefits to Jessica and her family after 20 years, when Emma graduates from college. (This assumes the policy experiences accumulation between the time it is issued and when policy loans are taken. This hypothetical example is for illustrative purposes only and does not represent actual clients. It is only one example of how this strategy could work).

An indexed policy loan (a type of loan amount that earns interest) can be used to help Emma pay back any student loans she uses to help pay for college. This gives the accumulation value in the IUL policy another four years to potentially accumulate while Emma is attending college.

An indexed policy loan also can help Jessica and Todd pay off their mortgage. Jessica and Todd can access the policy's available cash value through policy loans to get out of debt and help pay off their mortgage.

Jessica and Todd will have access to any remaining cash value through policy loans or withdrawals to help supplement their retirement income.

When implementing this legacy strategy, it's important to keep the following considerations in mind.

An IUL policy may be subject to market volatility to a certain extent. It is possible to earn 0% interest in any given year. In addition, IUL is not a source of guaranteed retirement income.

The policy must earn sufficient interest to support a loans strategy. Actual interest credited to the life insurance policy will impact the potential loan amounts.

The amount of interest the policy earns impacts the amount of cash value available, and there is no guarantee that there will be sufficient cash value available to keep the policy in force, which presents the potential for risk to the policy.

When accessing policy loans and withdrawals, the available cash value and death benefit will be proportionally reduced and the loans may be taxable if the policy lapses or is surrendered. Your clients should consider the potential tax implications of taking policy loans and withdrawals, and discuss them with their tax professional.

When taking policy loans, your clients need to be sure that they are managing the policy values and premium payments to ensure that the policy remains in force. It is important to review the potential impacts of taking sustained loans at a variety of rates.

This strategy is not suitable for everyone. Along with your guidance, clients should be encouraged to consult with their tax advisor to determine if this strategy is appropriate for their individual situation.

People Are Struggling

Multiple reports demonstrate that many people are currently struggling with different aspects of their finances, including student loan debt, credit card debt and general lack of retirement savings. Consider the following:

» **Student loan debt.** There are 45 million borrowers who collectively owe more than $1.5 trillion in student loan debt in the U.S. Student loan debt is now the second-highest consumer debt category - behind only mortgage debt - and higher than both credit cards and auto loans. Borrowers in the Class of 2017, on average, owe $28,650, according to the Institute for College Access and Success.

» **Credit card debt.** Total U.S. credit card debt was $868 billion in second quarter 2019, a 4.7% increase from the same time the previous year, according to a report published by The Motley Fool. As of June 2019, the average credit card debt per S. household was $8,398, the Federal Reserve reported. Fifty-five percent of U.S. adults who have credit cards report also having debt, according to a CNBC report.

» **Lack of retirement savings.** According to a study from Transamerica, median retirement savings for American workers sit at around $50,000. Even more worrisome, a recent report from the Federal Reserve found that nearly a quarter of all American adults have no retirement savings or pension at all.

These are alarming statistics underscoring the idea that many people need help with these financial challenges sooner rather than later. Index universal life insurance can provide necessary death benefit protection as well as accumulation potential that can be a financial resource for loved ones in the near future and potentially for generations to come.

As this example shows, an IUL policy can be a powerful way to help your affluent clients provide for their children now and start a solid foundation for the next generation as well. With the combination of financial protection, tax benefits and loan flexibility, IUL can be a great way for these clients to accomplish multiple goals. And the best part of this legacy strategy is that your clients can still be around to experience the positive impact their gift can provide.

Jason Wellmann is senior vice president of life distribution for Allianz Life. Jason may be contacted at *jason.wellmann@innfeedback.com* (mailto:jason.wellmann@innfeedback.com).