



Retirement Planning: A Guide to Cash-Value Life Insurance

Many cash-value life insurance policies enjoy the following advantages:

- ✓ They provide a safe environment that escapes the ups and downs of stocks and real estate.
- ✓ They have a greater potential for growth than CDs or bonds.
- ✓ They provide a death benefit that helps protect loved ones from financial hardships.
- ✓ They offer the ability for the consumer's money to grow in a tax-advantaged environment.

Disclaimer:

This guide provides general information about cash-value life insurance. It is not intended to represent financial or investment advice. Please consult with your financial advisor and/or tax advisor with specific questions concerning your particular circumstances.



How can consumers achieve growth while avoiding needless risk?

One possible solution is a cash-value life insurance policy. While the growth potential of a cash-value policy doesn't enjoy the lofty highs of stocks, it also doesn't suffer their devastating collapses, and while CDs and Treasury bonds are extremely safe, they have a very low rate of return. A cash-value life insurance policy from a solid, well managed company is a safe harbor for retirement funds while providing a great opportunity for the value of the policy to grow.

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The Risk of Stocks

Stocks are often touted as a means of achieving substantial growth in invested funds in a short period of time. It is indeed true that those investors who are lucky, very astute, or both, can gain significant financial windfalls in the stock market. Anyone who invested in Microsoft or Apple stock when it was first issued -- and who held on to it - has realized very large gains.

However, stocks can also suffer spectacular losses. When the perceived value of Enron was revealed to be little more than an elaborate Ponzi scheme, the entire company came crashing down - along with its stock, which had formerly enjoyed sky-high values. For consumers who depend on investment funds to finance their retirement years, relying entirely on stocks is risky business.

Growth Potential

CDs issued by banks that are insured by the Federal Deposit Insurance Corporation are safe because they are guaranteed against loss by the United States government. Likewise, Treasury bonds are considered safe because they are backed by the full faith and credit of the American government. However, the price consumers pay for absolute or near absolute safety is a very low rate of return. Many cash-value life insurance policies have a greater potential for growth than CDs or bonds.



Safety

Younger investors are often advised to take more risks with their portfolios to promote growth, because they are expected to have enough time in their projected life spans to recover from any losses suffered in a volatile market. Once investors have reached their 50s, 60s and beyond, risk is often less acceptable. This is especially the case when the amount of money that can be set aside for investment purposes is limited.

A cash-value life insurance policy can guarantee the consumer a minimum level of cash-value, and the guaranteed nature of life insurance is very attractive to consumers both young and old who are opposed to risk.

Protection

The main purpose of life insurance is to provide a death benefit that protects loved ones from financial hardships that could result from the insured's death. The death benefit provides cash to help replace lost income.

Tax Benefits

A cash-value life insurance policy has the benefit of tax deferred growth of the cash values. Also, generally, the beneficiaries of a policy will pay no federal income tax on death benefits - the policy will deliver the full amount in benefits with no withholding and no deductions.

Another possible tax benefit of a cash-value life insurance policy is tax free access to cash values through policy loans. After the policy accumulates cash value, the policyholder can borrow against that value to help supplement retirement income. Although these loans are usually subject to interest charges, often the policyholder will not pay income tax on the policy loan. Consult a tax advisor or attorney to discuss tax laws and the details of a particular policy.

Choosing a Cash-Value Life Insurance Policy

Savvy consumers need to ask the right questions about a cash-value life insurance policy. Getting good answers to these questions before committing to a policy can ease consumers' minds. When you select a life insurance policy, you must be careful and consider your own financial situation and the many alternatives available to you. No single life insurance product may have all of the features you find desirable. Therefore, it is important to understand the features available so that you can make the best decision for you and your family.

- What costs, if any, are associated with participating in the plan?
- Is there a guarantee to protect your funds in case the insurance company goes out of business?
- How are the funds in the life insurance company's portfolio selected? Are the funds safe?
- In case of an emergency, do you have access to cash value of the policy through policy loans?
- Is the plan portable?



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