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M Intelligence

Enhancing understanding of sophisticated planning strategies and their applications.

Why Life Insurance Should be a Key Component of Every Portfolio

Comprehensive financial portfolios benefit from the inclusion of permanent life insurance, which offers an added degree of diversification as well as important tax and liquidity advantages.

Primary reasons to consider permanent life insurance are the possibilities it provides for tax-efficient asset growth and wealth preservation.

Tax-Efficient Asset Growth: The Living Benefits of Life Insurance

A life insurance policy with a cash value element provides the policy owner with certain living benefits that may be used to help achieve a wide range of financial objectives, including building savings, supplementing retirement income, or funding mortgage or loan repayments. In many instances, because of its unique tax and non-tax characteristics, cash value accumulation in a life insurance policy can produce favorable long-term results relative to other alternatives.

When structured properly, cash value life insurance offers:

- Tax-deferred growth on policy cash values
- Access to cash value on a tax-free basis (withdrawals to basis and loans)¹

- Liquidity with no tax penalties—no early withdrawal penalties typically assessed on tax-deferred vehicles
- No Required Minimum Distributions (RMDs)
- Accelerated Benefits—a commonly offered rider, which for an additional cost will allow for early use of death benefits if the insured is terminally ill
- Partial or total cost recovery if coverage is discontinued, through a cash surrender value feature

Wealth Preservation: The Benefits of Life Insurance at Death

When it comes to transferring wealth, all assets are not created equal. The value of certain assets will be reduced by taxes and extra costs. In addition, many assets fluctuate unpredictably in value so it may be difficult to anticipate what they may be worth at death. Certain assets may also be subject to the costs and delays of probate or may be subject to the claims of creditors.

Life insurance is an asset that can efficiently transfer and preserve family wealth. Policy owners use life insurance as a component of their wealth transfer plan to deliver a valuable combination of advantages:

1. Loans and partial withdrawals will decrease the death benefit and cash value and may be subject to policy limitations and income tax.

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- Predictable value to heirs
- Income tax-free death benefits, that are also protected from the claims of creditors in many states²
- A very competitive return on investment as demonstrated by the Internal Rate of Return on the Death Benefit
- Direct payment to the named beneficiary(ies), avoiding the costs or delays of probate

Furthermore, a life insurance policy owned by an irrevocable trust can help satisfy any estate tax liability and enhance the overall portfolio as it:

- Provides an infusion of cash delivered at the exact time it is needed—estate, gift, and income tax-free
- Allows estate taxes to be paid with discounted dollars—premiums paid during lifetime are typically substantially less than the liquidity the policy provides at death through the policy's death benefit
- Creates an opportunity to keep other assets allocated in less liquid investments

Life insurance can be a tax-efficient instrument that offers multiple benefits both during the life of the insured and at death. This flexibility makes life insurance a valuable addition to many financial portfolios. An experienced life insurance professional can help determine an appropriate amount of life insurance coverage to satisfy both wealth accumulation and protection objectives.

This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney or tax advisor.

2. Section 101(a)(1) of the Internal Revenue Code states as a general rule that death proceeds are excluded from the beneficiary's gross income for federal income tax purposes, however there are exceptions in some situations.



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