

4 Hidden Benefits to Owning Life Insurance

There are good reasons to hold onto or purchase a life insurance policy even after the kids have grown.

For many people, the biggest impetus to buying life insurance is starting a family – when you have people in your life who are relying on your financial support. After all, if something were to happen to you, life insurance can cover a mortgage, private student loans, funeral costs and other debts your loved ones might not be able to repay on their own. But as children get older and retirement savings get sufficiently robust to cover unexpected expenses, you might question whether the benefit to owning a policy is worth the monthly premium. While that answer will vary depending on your personal goals and circumstances, there are four “secret” benefits to your life insurance policy that might make it worth keeping even into retirement.

HIDDEN BENEFIT NO. 1: TAXES

Recent changes to tax law have made life insurance's tax benefits that much more valuable. In 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act eliminated the possibility of non-spouse beneficiaries, like children, stretching out an inherited IRA's required minimum distributions over the course of their lifetimes. Now, non-spouse beneficiaries must use up any tax-deferred retirement accounts within 10 years of the original owner's death, which could result in an increased tax burden and faster distribution of those tax-advantaged funds. By contrast, life insurance proceeds are typically income tax-free, which would spare beneficiaries that additional tax burden on their inheritance. ►

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HIDDEN BENEFIT NO. 2: ESTATE PLANNING

Life insurance and estate planning share a common purpose – to provide for loved ones in the event of your passing – and life insurance’s tax benefits make it an especially attractive vehicle for transferring wealth to the next generation. In addition to being a source of income for common estate planning expenses, like funeral expenses, debts and final income taxes, life insurance proceeds – when properly structured – are not subject to federal or state estate taxes and even avoid probate when they are distributed to a named beneficiary. Life insurance can also be useful when settling an estate with hard-to-split assets (like property or a family business), funding buy-sell agreements in the event of the death of a business partner, or providing for child support or disability care through a trust.

HIDDEN BENEFIT NO. 3: LONG TERM CARE

For individuals 65 and older, long term care (LTC) can be expensive: According to the Department of Health and Human Services (DHHS), an American turning 65 today will incur on average \$138,000 in future long-term-care costs. But while the need for such care is likely – 70% of today’s 65-year-olds, according to the DHHS – it’s not guaranteed. That’s perhaps the biggest drawback for traditional long-term-care insurance – the possibility that you might spend tens of thousands of dollars on something you won’t use. A combination long term care/life insurance policy can give you some needed flexibility, providing LTC coverage if you need it or maintaining the death benefit if you don’t. Some even come with a 100% premium refund if the long-term-care benefits aren’t used.

HIDDEN BENEFIT NO. 4: CASH MANAGEMENT

If you have a savings account, you’re probably familiar with its advantages and disadvantages: The money in the account can be accessible at a moment’s notice, but the interest you earn on it typically is woefully small. If you don’t need immediate access to that cash, you might be better served by a permanent life policy, like whole life, that lets you build up cash value – cash you can withdraw or borrow against as long as the policy is active. A permanent life insurance policy grows tax-deferred, which means the interest you’re generating isn’t taxed so long as it stays in

the insurance policy, and withdrawals and loans are also tax-free so long as the policy remains in force. There are limitations to this strategy – for example, loans plus loan interest that aren’t repaid will reduce the death benefit, and overpaying the planned premiums might trigger a different tax treatment – that might not make it right for everyone, but it might be worth exploring with your financial advisors.

PART OF A BIGGER PICTURE

Life insurance can provide valuable financial flexibility in some surprising ways. But perhaps the bigger takeaway is that there isn’t just one path to achieving your financial goals – that when done well, wealth management evaluates all the tools available, including life insurance, and charts a path that is right for your personal circumstances and preferences. Your Baird Financial Advisor – one who understands your values and priorities as well as the financial vehicles you have at your disposal – can sit down with you and help you craft a financial plan that makes sense for you.

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