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Unique Writers Wealth Wizard

Do you ever wonder what to do with those clients who have annuities but are past the accumulation stage? Those clients who need to decide, do I need to live on it or do I leave it on? How about clients with “dead assets”? The assets like certificates of deposits, savings accounts, or checking accounts that have been saved as safe money, but ultimately will be passed on. What should you do with clients that have continuous premium cash value life products? You know the policy I am thinking about, purchased in the 1980’s or 1990’s with higher interest rates and much higher promise. So what can you do in these situations and others like it? For the uninitiated, let me introduce you single premium life.

Single premium life was born out of the 1980’s and the creation of modified endowment contract rules (MEC). Under the MEC rules, life insurance policies that crossed a premium threshold would no longer enjoy the tax benefits of most life insurance. In fact, a policy considered an MEC is treated as an annuity for tax purposes. Any cash value, withdrawn or loaned is taxed as “income first” to the extent there is a gain in the policy. However, and this is key, the death benefit of MEC still passes to beneficiaries income tax free. Now as a producer, in the early days of MEC you were taught to never allow a MEC. You could have a bill passed in congress before you would willing allow a policy to become an MEC. Now of course this thinking ignores some very legitimate reasons to embrace the use of MECs, most importantly single premium life. So let’s take a look at those reasons in comparison to some of the other vehicles often used by our clients

Annuities solve problems... except leaving it on

Because of their relative simplicity, annuities have been a boon to the insurance industry. What's not to like? The client can place their dollars into an annuity for a period of years. In return the client receives an interest rate (fixed, variable or indexed) that allows their dollars to increase. During the growth or accumulation period the interest received is tax deferred allowing for larger values than if the client placed the dollars in a taxable account. Finally, if the client needs income, an annuity can provide a lifetime stream that the client does not have to worry about outliving. If the client decides to leave the annuity to beneficiaries the gain in the annuity is taxed before the beneficiary receives the remaining amount. Not a bad deal, right? No, especially if you have clients in the accumulation or income phase. However, what about those clients looking to transfer dollars to the next generation? It is the concept of annuity wealth transfer that we find a need for single premium life.

Wealth transfer and annuities are tricky topics. Most beneficiaries will not complain about their parents, grandparents, aunts or uncles leaving wealth in the form of annuities. That is until the beneficiaries realize that the income tax due is payable by them. In addition, because of when the money is transferred, beneficiaries often receive the income in their highest earning years and at their highest marginal tax rates. So, beneficiaries are happy to receive but could there have been more? More importantly, what happens when beneficiaries ask was there a better way for my loved one to transfer money and why weren’t they made aware of it?

Single Premium Life offers the client who has determined the annuity will be given away at death and does not foresee its use for income a perfect alternative.

Whether you are speaking to prospective annuity clients or clients with annuities in place, the central question becomes what they want to do with the annuity money going forward? Single premium life, because of the leveraging of the dollars for death benefit offers clients the ability to give away more than the annuity alone. You must consider the tax structure and that even in death clients may be better paying tax now at potentially lower tax rates and moving the dollars into single premium life, leveraging a greater death benefit that will transfer income tax free.

CD's: Wanted "Dead" or Alive

Certificates of Deposit and other "dead" assets like savings accounts, checking account or money market accounts offer a much different picture. Often CD's are purchased for guarantees, safety, some gain but mostly a peace of mind that comes with knowing there is "break in the case of emergency" account. Now there is some gain but it will always be limited in comparison to annuities because of the "dead" assets tax structure. A client must recognize the income from these assets every single year which will limit its ability to grow and certainly will not outperform most annuities. CD's along with other taxable investments increase in the client's portfolio until the client reaches a point of achievement. The achievement is not that the client no longer has to worry, but if an emergency comes the client knows they can weather the storm. Once the achievement has been attained, the assets become "dead", never contributed to anymore, while the interest credited is paltry at best.

As clients get older the emergency they are usually preparing for is the eventuality of needing some home health care or entering a long term care facility. "Dead" assets certainly can be used for this eventuality, but the advent of single premium life has given clients the opportunity to plan for needing to use all, some or none of the assets for long term care, home health care or assisted living. In that case, a single premium life client can have access to funds for long term care, home health care or assisted living. So, if the client needs to access the policy for long term care, home health care or assisted they have that option. If the client does not need access then the "dead" assets can be leveraged via the tax free death benefit to transfer more wealth than the "dead" asset alone.

Interest sensitive life insurance (Whole Life, UL)

Interest sensitive life insurance is also born of the 1980's and provided clients the promise of cash value growth with illustrated interest rates north of 8, 9.. .sometimes 10 percent! Not only were interest rates high, but the premium needed to earn those illustrated cash values was less than target premium. What could go wrong? Fast forward thirty years, historically low interest rates, increasing longevity and premium underfunding have left many interest sensitive products in a lurch. In fact, many interest sensitive products face the unenviable choice of increasing the client's premium contribution to previously unthought-of levels or maintain a policy that continues on the fast track towards lapsing.

Single premium life offers a third option for older interest sensitive products moving towards lapse. Using IRS code section 1035, the client is allowed to exchange the cash value of the interest sensitive product to purchase the paid up insurance of single premium life. Using the exchange option allows the transfer to occur without having to recognize gain in the policy, but more importantly the exchange gives the client peace of mind.

The peace of mind that the life insurance death benefit will be available at a time when the possibility of needing it is greater as the clients grows older.

Blue Ocean Growth Opportunity

Single premium life is not a new development in the insurance industry, but it's gaining increasing usage for myriad of problems it can help solve. Whether it is finding the best vehicle to transfer wealth, preservation of life insurance death benefit or finding a multifaceted use for "dead" assets, single premium life uses will continue to expand and grow. Progressive representatives will look to single premium life as growth opportunity as they turn to past clients and determine what exactly they see on the horizon for many of the assets discussed above. The progressive representative will have a planned place (THINK: Financial eValuator) to systematically determine each client's desires for the accumulated assets. The plan will lead to many more opportunities for the representative to discuss single premium life.