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Stewardship Emphasis

A lifetime of hard work, a lifetime of prudent planning and management, and a strategy for enjoying the fruit of your labor is a solid formula for putting the gold in the golden years.

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Harvesting Retirement Income - Part 4

In the previous three issues of The Empowerment Channel we have looked at ways to access income for retirement, highlighting the Reverse Mortgage and Retirement Plans as potential sources of retirement income. In this issue, we will conclude the series by looking at the role life insurance can play in providing an additional income source with some significant tax benefits.

Life Insurance – A Source of Income in Life and in Death

Life insurance is one of those things in life that almost everyone realizes they need to have but really don't want (and don't want to use, for that matter). In its purest form, it is a financial vehicle that serves as an income and asset protector in the event of death, but with the various types of life insurance now available, it has evolved into a major estate planning tool and a source of living benefits as well.

To take advantage of the income benefits of life insurance, you need to use a cash value life insurance product such as: whole, universal, variable, or variable universal. It is the cash value accumulation that serves as the income source that you can use during your lifetime, growing on a tax-deferred or tax-free basis. Because the cash value represents essentially your "equity" in the policy, you have access to those funds at your discretion and don't have to wait until a particular age, like you would with a retirement plan. This makes life insurance a very versatile planning tool to fund cash needs pre-retirement as well as for use in retirement.

The strategy for using life insurance as an income vehicle is based on the provisions that allow you to not only withdraw your investment in the policy but also to take loans against the growth of the cash value, thus giving you a tax-free income stream. Perhaps the greatest argument in favor of using life insurance for retirement income planning, or income planning in general, is the ability to get the growth of your cash value tax-deferred, and still have access to the cash value without having to pay tax on it so long as the policy remains in force. In addition to that, you still have the death benefit of the policy to pass on to your beneficiaries income tax free. You can also provide for other specific living needs such as long-term care, by adding a rider to the policy, giving you a substantial living benefit for a relatively small increase in the premium.

Probably the biggest criticism of utilizing life insurance for investment or income purposes is that it is more costly than investing outside of a life insurance product because part of your premium goes towards mortality expense rather than all of it going toward the cash value. This is a valid argument, especially if you are not planning to "over-fund" the policy to the extent that you can generate the type of cash value accumulation that is useful. Having said that, it can still make sense if you have a limited budget and are looking to maximize your investment dollars to provide a combination of income or asset protection and investment growth. On the other side of the coin, if you have significant assets and may have an estate tax problem, just having life insurance does not get you off the tax hook because death benefits are subject to estate taxes. You can, however, remove those assets from your estate by doing advanced planning using vehicles like the irrevocable life insurance trust to pass more of your assets to your loved ones.

For any of these income strategies to be effective, you first have to qualify for the insurance, meaning being in good enough health and at an age where the insurance company is willing to take on the risk. Secondly, you need to have either the current assets or the long-term cash flow to fuel the cash value that you want the policy to generate. If those pieces are in place, you may have the makings of a strategy that could be a great benefit to you and your family not only after you pass on but in meeting the needs of everyday life.



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