Why does CORE Financial Group teach Clients about Whole Life Insurance Policies?

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There are a few financial products that have historically stood the test of time. One of the oldest financial products around is a dividend-paying whole life policy from a mutual life insurance company. This product has remained stable through every economy paying dividends for over 150 years during wars, recessions and even the Great Depression.

A whole life policy is a proven safe haven for cash with lucrative tax benefits, asset protection from creditors and privacy. The policies are designed to build contract wealth with guarantees and multiple benefits. They are engineered to protect against economic losses that are the result of a critical illness, mortality, disabilities, long-term care and longevity risk.

Mutual Life Insurance Company

There are two types of life insurance companies:
1) Mutual life insurance companies and
2) Publicly traded life insurance companies.

CORE Financial Group teaches clients about mutual life insurance companies as they work for the best interest of their policyholders. This is because the policyholders collectively own the company and profits benefit the policyholders. Mutual life insurance companies are legally obligated to pay out their profits to policyholders in the form of dividends. While dividends are not guaranteed, most mutual companies have paid profits uninterrupted in the form of dividends for decades and in some cases, centuries.

Insurance companies are highly regulated at both the state and federal levels. They must follow strict requirements, including having enough liquid assets in reserve to pay 100% of the present value of all potential claims. Each state has a guaranty association that also acts as a safety net. While each state varies a bit, generally the state will cover the value of the policy. Most mutual life insurance companies have been in business for over 100 years and have excellent ratings by Moody's, A.M. Best, Fitch and Standard & Poor's.

The Policies are Private Contracts and Protect Assets

A whole life insurance policy is a private contract between you and the company. You can store and grow cash without disclosing it to the IRS, banks, federal agencies or creditors. No one will know the contract exists unless you tell them. Conversely, your retirement accounts, bank accounts, 401(k), brokerage accounts, ownership in land, etc are public information. The cash value of the account and its growth are not reported to the IRS and they are not counted as an "asset" on a FAFSA student aid application. Additionally, in Michigan and most other states, the whole life policy is protected from lawsuits, bankruptcy and creditors.

There are Lucrative Tax Benefits when Owning a Policy

Whole life policies have one of the most lucrative tax advantages available in the tax code. There are no income taxes on the cash value, death benefit, dividends, withdraws or loans from the policy.* The income that can be generated tax free from the policy does not count towards the IRS provisional income calculation. This is a calculation used by the IRS to determine the percentage of social security income that will be taxed. As such, a whole life policy has significant tax savings in retirement as it may provide a tax recapture on Social Security income.**

**Dividends taken in cash are not subject to taxation up to the cost basis of the life insurance policy. Life insurance cash values grow without being subject to current taxation. Cash values can be accessed by way of policy loans without being subject to taxation. However, if tax-free loans are taken and the policy lapses, a taxable event may occur. Loans and withdrawals from life insurance policies classified as modified endowment contracts may be subject to tax at the time the loan or withdrawal is taken and, if taken prior to age 59½, a 10% federal tax penalty may apply. Withdrawals and loans reduce the death benefit and cash surrender value.*

***Always consult with a tax adviser regarding your particular situation.*

Strategic Method to Store Cash in a Whole Life Insurance Policy

A whole life insurance policy is a strategic way to save money and store cash. The cash saved into a policy is known as "cash value". The amount of cash value available grows as the age of the policy increases. The cash value is guaranteed by contract and is not affected by the stock market volatility or taxes. The cash value is guaranteed to appreciate each and every year.

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Premiums to Fund the Policy are Guaranteed Not to Increase

The mutual insurance company guarantees not to increase the premium. The premiums can be paid monthly or annually for a specific period of time based on the type of policy you own. The insurance company sets the minimum premium amount based on medical underwriting and the value of the death benefit. The IRS sets the limit on the maximum contributions that can be made based on how much death benefit you own. This limit was a result of tax legislation in 1984 call TEFRA and DEFRA. Clients who own contracts issued prior to 1984 can still make unlimited contributions.

The Death Benefit is Guaranteed and Not Taxable

The whole life policies have a permanent death benefit that can last an insureds entire lifetime. This is the most powerful attribute of owning this type of policy. While someone is working and accumulating their family wealth, life insurance is essential to replace a persons future earnings if they die prematurely. This is known as economic life value.

Once a person retires, life insurance can take on an entirely new role. The benefit can then take the form of asset insurance.

Retirement accounts and growth assets that are coordinated with a permanent death benefit can allow a family to enjoy more of their money while they are alive because upon death, the life insurance claim could replace all or part of the money that was spent. This can result in more enjoyment of your money during your lifetime. The death benefit is not taxable and pays benefits to the designated beneficiaries upon the passing of the insured. Insurance death benefits are paid directly to the heirs and avoid probate court making it one of the most effective legacy tools available in the marketplace today.

Taking Loans from the Whole Life Insurance Policy

After you establish a cash reserve, you can take a loan against the policy.
The features of a policy loan include:

- No credit check and will not appear on your credit report.
- Private loan.
- Money is accessed within days.
- No specific terms.
- Payments can be deferred or you can pay interest only with flexible payment options.
- Nonrecourse loan.

Every Policy is Customized

A whole life policy is customized for each individual depending on their financial goals. Someone who is age 25 would be looking at more long-term objectives while a 65-year-old may be focused on converting their assets into cash flow. A 65-year-old may use a policy as a legacy asset for their heirs as well as a stable place for cash. It may also allow them to maximize cash flow from other assets.

The Dividend Story

Policy dividends are an attractive feature of a whole life policy. Although dividends are not guaranteed because they are based on company profits, most mutual insurance companies have been paying dividends consistently for a century or longer. One of the benefits of owning a policy is the flexibility to choose what you do with your annual dividend. These options include:

- You can receive your dividends in cash, which you can save, spend or invest.
- You can choose to have the annual dividend automatically reduce your annual premium, which can lower or eliminate your out of pocket expense.
- You can choose to have the annual dividend purchase more permanent insurance, which will increase the guaranteed cash value and guaranteed death benefit as the policy continues to mature.
- You can choose to accumulate your dividends in an interest bearing account managed by the insurance company.
- Your dividend can be used to purchase one-year term life insurance, increasing your death benefit with no additional out of pocket cost.
- Your dividend can be used to pay off any current policy loan interest or the balance of the loan. This can be an effective way to pay back policy loans without any additional out of pocket cost.

Additional Riders for Whole Life Insurance Policies

Optional riders can be purchased for your protection. A guaranteed insurability rider which allows you to qualify for additional life insurance in the future without medical underwriting. You can purchase a rider on the policy that would waive your payments if you became sick or injured. Your policy would continue to grow even if you could not work.

There are accelerated benefit riders available that would allow liquid access to part of the death benefit upon the diagnosis of a terminal or chronic illness. The death benefit could be used to pay medical expenses, long term care expenses, alternative treatments, travel, etc.

There is a paid-up addition rider that can be added to the policy. If your goal is to store cash and increase liquidity, then you may want to structure the policy with a paid-up addition rider, which accelerates the cash value of the policy. This will also increase the death benefit over time. Also, someone who already has other whole life policies with large sums of cash value, may want to increase the worth of their estate by adding a paid-up addition rider to maximize the death benefit. (continued)