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JOURNEYS TO
EXCELLENCE

Q:

How can I think about using life insurance strategically?



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SAUGATUCK FINANCIAL

► **Though most of us prefer not to think about our own demise,** those of us with spouses, children and complex finances realize that planning ahead financially provides at least some peace of mind. One planning tool, permanent life insurance, goes well beyond covering final expenses and often becomes a critical component of our clients' comprehensive financial plans.

There are three basic types of permanent life insurance:

- 1.** "Whole" life insurance, which has a lifetime death benefit and fixed scheduled premiums, builds a guaranteed, tax-deferred cash value that can be withdrawn or borrowed against.
- 2.** "Universal" or "adjustable" life has the same lifetime death benefit but offers more flexibility in premium payments, death benefit and cash value during the life of the policy.
- 3.** "Variable" life is a universal policy that also offers tax-deferred investment

options for the cash value, which is then subject to market risk and therefore not guaranteed.

Below we've outlined some common scenarios and financial planning objectives that make the attributes of permanent life insurance a fitting strategic solution.

LONG-TERM CARE PLANNING: Historically, long-term care insurance has been the go-to tool for protecting against the potential financial devastation of a long-term care event. But lifetime coverage and guaranteed premiums are a thing of the past. There is now a rider commonly available on permanent life insurance policies called "accelerated benefits," which allows drawing down the death benefit during your lifetime should you suffer a long-term care event.

TAX-EFFICIENT WEALTH ACCUMULATION: The cash value of

any permanent life insurance policy grows tax deferred, a benefit rarely available to—and highly valued by—high net worth and ultra high net worth individuals.

LIQUIDITY OPTIONS: Permanent insurance, with a cash value that can be borrowed against tax-free or withdrawn basis first, offers an inexpensive solution for short-term liquidity needs. Clients with an adequate cash value balance during retirement can avoid the forced sale of portfolio assets in a market downturn, without the drag of holding excess cash in their portfolio.

STRATEGIC GIFTING: A common strategy for optimizing the tax-efficient transfer of wealth over time is to pay the premium for a trust-owned permanent policy using one’s annual gift exclusion (\$15,000 per donor, per beneficiary in 2019). With the trust also named as the policy beneficiary, the death benefit can typically be excluded from the insured’s estate. Life insurance can also be a cost-effective tool for legacy gifting to a charity, nonprofit, institution or school.

TAX-FREE TRANSFER OF WEALTH: With few exceptions, death benefits are not subject to capital gains or income tax.

ESTATE PLANNING: Assets exceeding each individual’s lifetime exemption (currently \$11.4 million) that are inherited by spouses without U.S. citizenship or by nonspousal family members are typically subject to a federal estate tax of 40 percent, plus any applicable state taxes. Life insurance can make sure that liquidity becomes available exactly when heirs incur a tax liability, and with proper planning, the net proceeds retained by heirs can be increased by as much as 40 percent.

A skilled advisor can help you navigate the options available, compare them to alternatives and make educated recommendations that will optimize the uses and benefits of life insurance for your specific financial planning needs. ●

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Saugatuck Financial provides comprehensive financial planning and strategy implementation for high net worth and emerging high net worth individuals, families, businesses and institutions. SF partners with each client to create and implement a tailor-made financial plan integrating risk

management, wealth management, tax strategies, estate planning and retirement income distribution planning—all under one roof. SF’s advisors are consistently recognized as among the top advisors within the industry, and their team takes pride in providing world-class strategies and platinum-level service to each client.

EXPERTISE

Financial Services Experience

10
YEARS

Education

College of Mount St. Vincent,
Bachelor of Science,
business,
minor in communications

Areas of Expertise

Wealth management,
tax strategies, insurance
planning, retirement
planning, income-distribution
strategies,
estate planning

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