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Life Insurance for Living

More than two-thirds of American families include life insurance in their financial strategies.¹ Many of these people probably think of life insurance as a source of ready cash in the event that a primary wage earner's death creates a financial hardship – and you should, too.

You must have a need for a death benefit in order for life insurance to be a suitable purchase. But there are some less common uses for permanent life insurance that you may not have considered.

Over time, your need for a life insurance death benefit may change – perhaps because your children are grown and no longer depend on your income, or your mortgage is almost paid off. If these events occur, a permanent life insurance policy might play a different role in your life.

Supplemental Retirement Income

A permanent life insurance policy has the potential to accumulate cash value on a tax-deferred basis. After a period of time, you may be able to withdraw any cash value up to your cost basis in the policy, which is the amount of premiums paid, without incurring any income tax liability.²

When your cost basis has been withdrawn, you may be able to borrow against the death benefit. However, the amount of any outstanding loans plus any interest will be deducted from the death benefit after the insured has died.

Of course, this strategy might not be suitable for everyone. Access to cash values through borrowing, partial surrenders, or withdrawals can reduce the policy's cash value and death benefit, increase the chance that the policy will lapse, and possibly result in a tax liability. Consult your tax advisor regarding your personal situation.



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A permanent life insurance policy can help protect your family when your children are young and later be tapped to help pay for college or retirement. You might want to learn more about the role that life insurance can play during your lifetime.

The cost and availability of life insurance depend on such factors as age, health, and the type and amount of insurance purchased.³ Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable by having the policy approved.

- 1) American Council of Life Insurers, 2006
- 2) Policy withdrawals are not subject to taxation up to the amount paid into the policy (the cost basis). If the policy is a Modified Endowment Contract, policy loans and/or withdrawals are taxable to the extent of gain and are subject to a 10 percent tax penalty.
- 3) As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

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