

5 Reasons to Purchase an Indexed Universal Life Insurance Policy

By Ed F Kinsey

As a financial planner, I feel like Indexed Universal Life insurance is one of the most misunderstood and underutilized tools and asset classes in the market today. I believe that this is because of the newness of the product itself. Indexed Universal Life (IUL from here on out) has only been around for a little over 16 years. Because of this, most financial advisors don't fully understand it. IUL's came around after they received their education and set their practices. Thus, individuals aren't learning from experts, but rather, they rely on media pundits for any information on these programs.

In an effort to further educate you, and promote a wonderful product, I give **5 reasons to buy an IUL**.

No. 1

The first great reason to have an IUL in your retirement portfolio is the fact that these products provide **minimum guarantees**. Unlike placing your funds directly into the market, these funds are protected from the market. They earn interest in a unique way. Interest is credited based on the performance of a chosen index. Rather than being invested in the actual market, you merely receive a portion of the index return. Again, the worst-case scenario is that you earn 0% in a given year. You can never lose money due to market fluctuations. Each year that you do earn interest, that interest is locked in and becomes part of the principal amount guaranteed to not be at risk to the market. What a great way to plan for retirement. This system of guarantees also removes the risk of retiring at the wrong time, when your account value is low due to market losses. It also prevents catastrophic damage to your retirement due to losses in the early years of your retirement.

In addition to the downside protection, these products can perform very well; often times outperforming the market returns seen in a typical investment portfolio. So you don't have to give up a good return to find a safe haven for your retirement nest egg.

No. 2

The second great reason for purchasing an IUL is the **tax-free death benefit**. Life insurance is often used as a tool in estate planning. It is treated favorably by the IRS tax codes. Often, the funds coming from a death benefit from a life insurance policy are passed on to beneficiary's income tax free. Indexed Universal Life is no different. It becomes a wonderful tool to pass on assets tax free. Unlike other retirement options, such as a 401k, the assets held in an IUL pass on without taxes and give you immediate access to the funds, unlike assets held in real estate. It is also very typical, due to the death benefit common in all life insurance policies, that the death benefit will exceed the accumulation value of the account, meaning you not only leave more to your beneficiaries by paying less in taxes, but also because of the higher death benefit.

No. 3

The third great reason for looking at an IUL is for the incredible **supplemental retirement income** that can be generated from it. What if you could put an unlimited amount of money into a Roth IRA, pay taxes on the principal now and have an income generated, tax free, for your retirement, and you could even access it early if you wanted? That would be an incredible deal, right? Well, it exists. It's called an IUL. You can create a tax-free income through these IUL's without having to worry about the timing of the market. Rather than rolling the dice of where the tax brackets fall out over your lifetime, why not draw at least part of your income through a program that allows you to fund it limitlessly, and not have to worry about paying taxes on the gains?

This is achieved through policy loans. It's a new concept, but hear me out. Through a policy loan, you are able to draw out an income from your IUL tax free. Everyone always asks me "what if tax laws change?" Valid question. In theory, it is possible that the laws change and these funds do become taxable, but that would be odd. The government doesn't tax our loans, only the asset by which the loan is guaranteed. Think for example of your car

loan... you pay a property tax on that auto, but you don't have to treat the loan from the bank that you used as income because it wasn't income, you have to pay it back. These policy loans function the same way.

No. 4

Diversification is the fourth reason to purchase an IUL. Since the bulk of your retirement funds are probably in taxed deferred savings accounts, like traditional IRA's and 401k's, IUL's can provide a diversification, not only in asset class, but also in the tax treatment of the account. We typically believe in diversification and have been taught that since our high school years, yet we all have our retirement in the same types of vehicles. All are tax-deferred time bombs with minimum distribution ages and minimum distribution requirements or maximum contribution amounts controlled by the government and current economics in the USA. We are all typically in a blend of stocks and bonds, crossing our fingers that when that day comes to retire, we are up, not down.

Amazing that we've heard this same concept preached for over 2 decades and we're still drinking the Kool-aid. I'm not going to tell you to not drink, just try a different flavor for a minute. It should be noted that when taxes go up, and they inevitably will, you will pay taxes on those funds that are in taxed deferred accounts. This can hurt the value of the dollars you have saved in those accounts. There is also a little thing called an RMD. Required Minimum Distributions are what the federal government requires us to withdraw from our retirement accounts, based on our age, as a percentage of our account balance. There is always the possibility of these percentages increasing so the taxes can be collected on these funds. This could also cause you to withdraw funds you don't need. An IUL gives you a great hedge against these potential tax issues.

No. 5

Finally, the fifth reason to purchase an IUL is because they allow you to work towards **becoming your own banker**. Have you ever found it odd that you borrow money from a bank even though you have money in the bank? I have. Most IUL's have loan provisions allowing you to borrow from and pay back your life insurance. The nice thing is, by doing this, you pay yourself the interest rather than the bank. You continue to have a retirement fund that is growing and you aren't losing years' worth of interest to the bank. Think of all the interest you have paid for credit cards, auto loans, your mortgage, etc.

You can borrow the money from yourself instead and you don't have to worry about the approval process at the bank. Many business owners feel that term insurance is the only type of life insurance for them because they don't want to tie up their money. This is a false assumption. The funds "tied up" in life insurance are not locked up, but rather, provide more access to funds than most investment opportunities. The funds can be borrowed and replaced with relative ease, making it a wonderful program for creating your own personal banking system.

One **final little bonus** is that your IUL is permanent insurance, as long as it is built correctly and you fund it properly. You'll likely have lifetime coverage, even after stopping your premium payments and taking withdrawals. Long after your term insurance is gone, you'll still have a death benefit to leave those you love.

For these reasons, along with many others, indexed universal life insurance is a great way to help fund your retirement. It is not perfect for all situations, and it is always wise to consult your advisor before purchasing any retirement funding program. That being said, there are five reasons you should give your advisor a call and find out if an IUL is right for you.