

10 reasons to love IUL

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As an avid woodworker, I have a tool collection that would be the envy of Bob Villa. My workshop contains some very highly specialized tools accurate to 1/100th of an inch. This kind of precision is necessary for things like cutting dovetail joints, but not everything I do requires that kind of rigor. Some of my favorite tools are consumer-oriented devices that have multiple applications. Oftentimes, these multi-taskers are the ones I reach for.



Critics of permanent insurance may argue that insurance is not a good investment, that term is a cheaper way to provide a death benefit, that surrender charges are too long, that product design is too complicated, and so on. While I disagree with most of those statements, I am willing to concede on all of them for the purpose of this article and stand by permanent insurance (especially IUL) solely on the grounds that it is the best multitasker in the tool box.

There simply is no other financial product that can protect against life's uncertainties better than IUL. Let's consider all that it can do:



Death Benefit: While term may be a cheaper way to protect against premature death, by definition most people don't die prematurely. Permanent life insurance is the only effective way to provide a death benefit over both the short term and the long term.



Longevity: The opposite of dying too soon is living too long and both are equally risky. Permanent life insurance can mitigate the risk of outliving assets by providing an income stream via loans/withdrawals or by selling the policy as a life settlement.



Disability: Not only can the account values be accessed to replace lost income due to disability, certain riders are available that can continue making the premium payments while the insured is disabled.



Long Term Care: Many of today's policies will advance a portion of the death benefit to cover long-term care needs. Even if this rider is not available or not exercised, the death benefit can be used to repay the children if the children become responsible for their parent's care.



Protection Against Market Volatility: This is where IUL really shines. Since indexed products do not lose value as a result of market downturns, it can provide an enormous cushion against volatility. The 38 percent market drop in 2008 represented an enormous buying opportunity. If all your money were in stocks you would not be able to take advantage of that buying opportunity. Since most of my money was in

indexed products in 2008, I had the dry powder to capitalize on the market conditions and posted a significant gain for the year. My retired clients were able to use their IUL policies to supplement their income rather than being forced to sell their securities in a down market.



Protection Against Tax Rate Changes: Every few years we experience major changes in our tax laws. Since life insurance values can be accessed income-tax free, it becomes an ideal income vehicle for high tax years. It can also be used as a supplemental income vehicle to prevent one from creeping into higher marginal brackets.



Access to Credit: Policy loans commonly have fixed interest rates between 5 percent and 6 percent. In today's interest rate environment, that may not seem low. But remember the 80s when mortgage rates were in the mid-teens? An IUL policy with a low fixed interest rate will most likely be the most advantageous line of credit available. There are no restrictions on the use of loan proceeds, no need to qualify and repayment terms are vastly more flexible than bank loans. And, if the loan is participating, your policy values will not be affected once the principal and interest is repaid.



Student Loan/Financial Aid Eligibility: Life insurance cash values need not be disclosed on FAFSA forms. This can greatly enhance a student's ability to get favorable student loans and financial aid. And with IUL's protection against market downturns, it is an ideal vehicle to store money earmarked for college especially as the student nears college age.



Social Security Protection: When one spouse dies the other will experience a drop in Social Security benefits anywhere from 33 percent to 50 percent. The tax-free death benefit of a life insurance policy can replace the lost Social Security benefit and tax-free distributions from the policy while the insured is alive and can be used to reduce the amount of Social Security benefit that is subject to income tax.



Creditor Protection: Accidents happen and nobody is exempt from lawsuits. Most states provide generous exemptions on life insurance cash values from the claims of creditors.

While IUL may not be the very best vehicle in each of the above categories, it does a respectable job in all of them. Even if you believe that cash value in a life insurance policy is an inferior investment, can you name any other product that achieves all the above results?