Life Insurance: Not Always About Death

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Many Americans view life insurance policies as a key part of their financial planning. But they tend to think in terms of how the insurance will benefit their survivors after they are in the grave not how it might benefit themselves while they are very much alive.

If that's the way they see it, though, they may be missing out on an additional way to help pay for retirement something especially worth knowing if other investments go awry or a pension is non-existent.

"I think a lot of people are surprised to learn that their life insurance policy can help them handle expenses during retirement," says Gary Marriage Jr., CEO of Nature Coast Financial Advisors. "They consider life insurance a death benefit. But it can be a lot more than that."

How so? Essentially, Marriage says: Over the years, a person pays premiums into a permanent life insurance policy with the intent to provide a death benefit as well as cash-value accumulation for as long as the policy remains in force.

If they reach retirement, and aren't as concerned with the death benefit, they can withdraw from the insurance policy without paying taxes. Usually, you can withdraw up to the amount that you paid in premiums over the years, Marriage says.

Some other advantages include:

* Contribution limits don't apply. The government puts a limit on how much money you're allowed to contribute each year to an IRA. So, your IRA is going to grow, but not to the degree that you would like. If you structure a life insurance policy so that it's part of your retirement plan, you don't face those same dollar-amount limits, Marriage says.

* The cash value of the policy grows each year with interest, tax deferred. Investing in or purchasing a tax-deferred vehicle means your money can compound interest for years, free from income taxes, potentially allowing it to grow at a faster rate. And if you're worried about the stability of the insurance company, the fact is insurance companies are some of the strongest financial institutions in the world.

* When you leave your children the money you've accumulated in an IRA, they must pay taxes on it. But the beneficiaries of a life insurance policy don't have to pay taxes.

* The federal government will penalize you if you withdraw money from an IRA or a 401(k) before you turn 59½. But if you need some of that life insurance money at an earlier age, you can withdraw without paying a penalty. That's a big advantage for those who suddenly find themselves in need of cash, but don't want even more of their retirement savings to disappear into Uncle Sam's coffers.

"It's really important for people to take advantage of all the options they can when it comes to retirement," Marriage says.

"I think many people underestimate how much money they'll need, often because they don't take into account all the factors like taxes and inflation.

"Maybe you'd never have to tap into that life insurance policy and it can all go to your beneficiaries. But it would be nice to have it there in case the need arises."