

# THE MANY USES OF SINGLE-PREMIUM



**WHEN IT'S THE BEST CHOICE  
AND WHAT IT CAN DO FOR YOUR CLIENTS.**

By Herb White

Life insurance is not just about death benefits anymore.  
When used properly, it can be a sophisticated financial tool. >>



## ONLINE EXTRA

For more tips on using single-premium life insurance to meet your clients' varying needs, read Debie Knowles' article, "Boomers, their parents and the 7-second sale," by visiting [www.seniormarketadvisor.com/7second](http://www.seniormarketadvisor.com/7second)

of a properly structured life insurance policy, single-premium life may be much more advantageous than an annuity for many elderly people. Many seniors want to find efficient ways to maximize what they leave to their loved ones and favorite charities. Unlike an annuity, the entire death benefit in a life insurance policy is passed to the beneficiary income-tax free. To avoid having the death benefit impact the estate tax of the insured, many life insurance policies are owned by the beneficiaries or an irrevocable life insurance trust.

### WHAT TYPE OF POLICY IS BEST?

Anyone considering a single-premium life policy should look at either whole life or guaranteed universal life policies. Traditional whole life is the most commonly used policy. It is the least aggressive and has a guaranteed interest rate, making it the most appropriate for seniors.

Universal life policies usually have changing interest rates or variable sub-accounts, or may be tied to certain market indices to enhance policy values. These types of policies may be more appropriate for younger persons. A variable universal life policy has a cash value feature that accumulates from the premiums paid in excess of the policy. The insured is in control of where his money is invested. This cash value may earn interest or may decrease in value depending on the performance of the variable investment sub-accounts chosen.

Before purchasing a single premium life insurance policy, it is important to consider the individual's personal financial situation and other investment vehicles so a policy can be structured to best meet his needs.

If an individual is working or retired, young or old, currently insured or not, single-premium life may deliver financial benefits in new ways regardless of his circumstances. ■

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It is a key component when it comes to creating a sound financial plan. There are multiple ways a single-premium life insurance policy can now help individuals in a wide range of financial situations.

Life insurance should be considered a part of everyone's financial plan. Purchased with a lump sum, an individual receives a policy with a death benefit guaranteed to be in place when the insured dies. Typically, the younger the person is when they apply for the insurance, the greater the benefit received. Also, it is sometimes easier to qualify for a single-premium policy from a medical and age point of view, because the full premium is paid at issue.

Single-premium life may be the best choice when a person receives a lump sum of cash from an inheritance, retirement account, gift, etc., and he needs life insurance coverage. A one-time, lump sum premium payment will usually produce several times that amount in coverage immediately. The amount of protection will usually continue to increase over time until it is much greater than the amount paid into the policy.

### WEALTH CREATION AND WEALTH TRANSFER

Single-premium life insurance is an excellent tool for wealth creation and wealth transfer. It is an efficient way of maximizing the assets which will eventually be distributed to loved ones and/or charities because life insurance policies create instant wealth.

The holder of a single-premium life insurance policy can benefit during his lifetime, because the cash value of a fully funded policy can grow quickly and possibly provide income if needed. The insured can also borrow against the policy if desired.

It is important to keep in mind that withdrawing cash values from a single-premium policy can result in extra taxes, because the IRS may consider the policy as a modified endowment contract. This would cause the withdrawal of gains from the policy to be taxable as ordinary income just like the

withdrawal of gains from an annuity. If the owner is under the age of 59½, the IRS can add an additional 10 percent penalty as well. For these reasons a single-premium life insurance policy is best for people who plan to keep their policy without accessing any of the cash value prior to death.

### AN ANSWER FOR LONG-TERM MEDICAL EXPENSES

Some policies allow the insured the option of an accelerated death benefit that can be used as a tax-free way of addressing long-term care expenses. Many single-premium life insurance policies include a feature that allows the withdrawal of part of the death benefit when the insured is diagnosed as terminally ill and wants to spend the monies before death.

### PLANNING FOR A BRIGHTER RETIREMENT

Single-premium life can be used to help high income earners who are preparing for retirement. These individuals may not be able to fully capitalize on their other plans, including their 401(k), because their current pension program is maxed out or because there are not enough people participating. The additional monies that can't be used in these financial plans could be redirected to a life insurance product.

If an individual could direct as much money as desired into a properly structured single premium plan, the money that accumulates would be tax-deferred. When the person retires, assuming the policy was not a modified endowment contract, he could access his cash value income tax-free as a means of supplementing his retirement income.

### ANNUITY ALTERNATIVE AT RETIREMENT

Because of the favorable tax treatment