Some Things You May Not Know About **Cash Value Life Insurance**

Life insurance policies are available in two general forms:

1 **Term Insurance**
(which ends after a pre-determined number of years) and

2 **Cash Value Insurance**
(in which part of the policy premium is retained for the policy owner and may be accessed before death under the policy's terms).

Term life insurance policies only pay death benefits if the insured dies while the policy is in force. Many term insurance policies are designed to end **before** the insured's normal life expectancy. Cash value insurance can be designed to pay death benefits no matter how long the insured lives. Although the provisions of cash value policies differ from insurer to insurer, many of them offer policy owners a unique combination of potential benefits.

Some of these benefits include:

Federal Tax Benefits

- Life insurance death benefits are generally paid to policy beneficiaries free of federal income taxes (IRC Section 101).
- The policy can pay out income tax-free benefits to policy owners **BEFORE** the insured's death:
  - **Premium withdrawals** – Cash values up to the amount of total premium paid into the policy can be withdrawn income tax free.
  - **Policy loans** – Policy cash values that exceed premium payments can be borrowed from the policy income tax free.*
  - **Accelerated Death Benefits** – A policy owner may receive an income tax free advance of some of the policy's death benefits (subject to the terms of the contract), in the event of terminal illness.
- Increases in policy cash values are generally income tax-deferred while they remain in the policy.
- Cash value withdrawals and loans are not subject to the 3.8% Affordable Care Act (ACA) investment tax; they are not considered in calculating income taxes on Social Security benefits; they are not considered in calculating Medicare premiums, nor are they countable assets on the FAFSA application for college financial aid.
- A policy may be converted income tax free into another life insurance policy through a qualifying Section 1035 exchange.
- A policy may be converted income tax free into an annuity through a qualifying Section 1035 exchange.

* Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Withdrawals will reduce the policy's cash value and the policy's death benefit. Policy loans will reduce the policy's cash value and may reduce the death benefit. This assumes the policy qualifies as life insurance and does not lapse.

Policy Features & Optional Benefits

- Cash value policies can pay out benefits BEFORE the insured's death.**
- Policy loans may be structured so they are essentially interest free (sometimes called zero net cost loans).**
- The policy may be structured so the death benefits have the potential to increase from year to year (either through policy design or through the use of riders that allow additional coverage to be added in the future).**
- The insurer will pay all or part of the premiums if the policy has a waiver of premium feature and the insured is disabled as defined within the terms of the policy.**

**Subject to the specific terms of the policy and the terms of riders purchased with it.

State Law Protections

- Insurers are heavily regulated and most states require them to set aside significant assets to pay future death benefit claims.
- The life insurance industry has established "guarantee funds" to pay valid claims under policies issued by insurance companies that have gone bankrupt or are in receivership.
- Many states have adopted laws that protect policy death benefits from claims of the policy owner's creditors.
- A number of states have adopted laws that protect life insurance cash values from claims of the policy owners' creditors.

Conclusion

Cash value life insurance can be a flexible financial vehicle with the potential to increase the policy owner's financial security. But unlike many other financial tools, it's not a commodity that can be bought at will. Purchasing life insurance isn't automatic. Life insurance companies have a process in which they evaluate new policy applications. They have underwriting rules and guidelines which they use to gather and evaluate the proposed insured's health and financial condition. If the company's underwriting requirements are satisfied, a policy will be issued. Because of the scrutiny insurance companies give to the applications they receive, life insurance coverage may not be available at the last minute. It usually has to be purchased in advance, before it is expected to be needed.

Not FDIC/NCUA Insured	Not A Deposit Of A Bank	Not Bank Guaranteed	May Lose Value	Not Insured By Any Federal Government Agency

ING