Life Insurance:

A Versatile, Multi-Purpose Financial Asset

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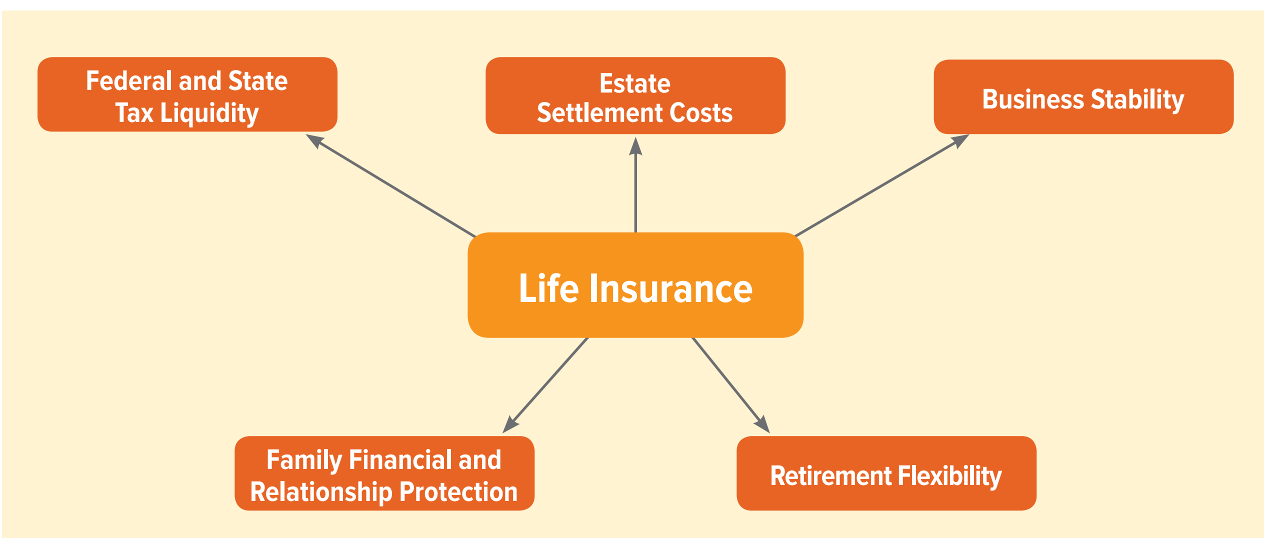
Life insurance can be a valuable and versatile financial asset which may be able to help individuals and families deal with a variety of financial problems. It may help grandparents and parents protect their own financial futures and strengthen the financial security of those they love. Its unique combination of tax and non-tax benefits makes it a multi-purpose asset with the potential to help families accomplish a number of different objectives.

Life insurance may assist people in overcoming some financial obstacles and may help turn some of their dreams into reality. It is a flexible asset with the potential to benefit a policy owner while they are alive and their beneficiaries after an insured's death. Term insurance policies provide death benefit protection and cash value policies offer both death benefit protection and the potential for tax-deferred cash value accumulation while the insured is alive.

One of life insurance's biggest advantages is its flexibility. Policies can provide benefits for a limited number of years or for life. Premium amounts can be large or small. Money may be put in or taken out if the policy holds cash value. Benefits may be received during life or paid to beneficiaries after death. When properly handled, cash value life insurance policy distributions can be income tax free.*

Because of its great versatility and flexibility, life insurance can be used to meet a wide variety of financial needs. Here are some of the areas in which life insurance may provide excellent value:

- Estate Settlement Costs
- Federal and State Tax Liquidity
- Family Financial and Relationship Protection
- Retirement Flexibility
- Business Stability



* Tax-free income is achieved by withdrawing from the policy cash value an amount equal to the total premiums paid (called the cost basis), then using policy loans for the balance. Outstanding policy loans at death, and withdrawals, may reduce the policy death benefit and cash values. If the policy is allowed to lapse with a loan outstanding, the amount of the loan in excess of the cost basis will be taxable as ordinary income to the extent of the gain in the policy.

Estate Settlement Costs

When a spouse or parent dies, the family suffers two devastating losses. First is the emotional loss of the spouse or parent's presence and support. Second, is the financial loss that comes from settling the spouse or parent's affairs. It can be tough for a family to deal with the emotional loss of a loved one. It's even tougher when that loss is compounded by financial loss. The process of dying can be expensive.

Life insurance death benefits may provide a family with money to help maintain a stable financial foundation. These are some of the costs which often occur when a person dies:

Estate Settlement Costs. Expenses can begin before death (such as medical and hospital expenses, nursing home expenses, physical therapy and drug costs) and continue for several years (probate costs, funeral expenses, appraiser's fees, legal and accounting expenses, real estate commissions and property management fees).

Payment of Outstanding Debts. When a spouse or parent dies owing money to others, those debts have to be repaid as part of the probate process. Credit card balances, secured and unsecured loans, judgments, and loan guarantees are some examples of the outstanding debts that must be dealt with after death. Life insurance death benefits may provide the cash needed to pay them.

Guardianship Funds. Sometimes a single parent responsible for raising children dies unexpectedly. This is an especially tragic situation because the children may have to move in with a guardian who accepts the responsibility for raising and educating them. If the goals and dreams the parent had for raising the children are to come true, the parent may need to provide the guardian with resources to raise the children. If there isn't enough money in the estate, the guardian will have to make some difficult decisions. It is probably unrealistic to expect a guardian to use his/her personal funds to raise someone else's children. The quality of life for the guardian's own family could be compromised. Life insurance coverage on the parent may provide the funds the guardian needs to raise the children.

Specific Bequests. It is common for people to put provisions in their wills earmarking a specific dollar amount of their estate to loyal friends and family members. These bequests have to be paid in cash. Other estate assets won't work. Life insurance death benefits may create the cash needed to pay these bequests.

Charitable Bequests. Sometimes people put provisions in their wills directing specific sums of money to charities and important causes. Transferring other property to the charity likely won't work because the charity needs cash to do its work. If the estate doesn't have enough cash, the executor will need to sell some assets (possibly at a loss) to create the amount needed.

Family Financial & Relationship Protection

When most people think about dying unexpectedly, their biggest concern is for the family members they leave behind. They want to leave their family a solid foundation so they can lead happy and productive lives.

No one wants to leave behind financial problems or emotional conflicts that may cause hardship or division. Life insurance may help families accomplish these goals:

Bolster Family Financial Strength. When a working parent dies, his/her income stops. The family's cash flow may be significantly reduced and hardship may result. Difficult choices may have to be made. The remaining parent may have to go to work or change jobs. The family may have to move. The family's lifestyle may have to change. Life insurance may replace all or part of that lost income; it can be of crucial assistance to the remaining family members so they can pick up their lives and stay together.

Pay Off the Mortgage. The most important place for many families is their home. If a mortgage is taken out to finance the purchase, a spouse or parent's death may cause a foreclosure. If his/her income isn't replaced, the family may be forced to move out. Life insurance may provide the funds to pay the mortgage installments and keep the family in their home.

Special Needs Children & Grandchildren. Not everyone in a family may have been blessed with good health. It is not unusual for one child in a family to have a life-changing condition, accident, illness or disease. When this happens, parents can find themselves in a difficult position. They can care and provide for their special needs child while they are alive, but what happens after they die? Who will take care of their child and where will the money come from to provide the care? Is it fair to expect healthy children to divert time and money from their own families to do the job? Life insurance death benefits may provide extra dollars to secure a special needs child's financial future without adversely impacting the other children.

Education and College Funding. A college education can have a big impact on a child's life and earning capacity. The death of a parent sometimes cuts off money that was to be used to put children through college. Life insurance death benefits can help pay children's education expenses if a parent dies early.

Equalize Inheritances Between Children. It is generally assumed that children will inherit their parent's assets in equal shares—that the assets will be divided up and distributed in equal parts to the children. Unfortunately, sometimes, this isn't possible. It may not make sense to divide a house, a business, or real estate into equal shares. The nature of the assets or the children's personal situations may make equal division impossible. The only way to treat children equally when it's unwise to divide assets into equal shares is to use cash to make up the difference. Most people don't have large amounts of cash. Fortunately, life insurance death benefits may create the additional cash needed to make sure each child receives equal estate value, even if what they receive is different.

Ease Conflicts Between Children and a Second Spouse. When a parent with children remarries, there is great potential for conflict. The new spouse and children have different financial interests. After the parent's death, the new spouse needs financial security but the children want their inheritance. If they have to wait until the new spouse dies, great animosity may develop between them. Life insurance on the parent may provide the financial security the new spouse needs and allow the children to receive their inheritance immediately. Conflict between the spouse and children may ease.

Federal and State Taxes

One of the largest potential costs of settling a decedent's affairs is taxes. An estate can be responsible for paying a surprising variety of taxes to the federal, state and county governments.

Each estate is different and some taxes may not be applicable. But, when added together, the cumulative total of all these taxes can be surprisingly high. Fortunately, life insurance death benefits can provide the money to pay the taxes or can reimburse someone else who pays them. These taxes impact many estates:

Federal & State Income Taxes. Income received in the year of death may be taxable and create a debt the estate must pay. Life insurance death benefits may create the cash the executor needs to pay these taxes.

Income In Respect of a Decedent (IRD). Many people die owning assets that have not yet been taxed but which will be. Some of these are called "IRD Assets;" they include IRA/qualified plan dollars in the decedent's name, the growth element in variable annuities the decedent owned and a decedent's interest in a deferred compensation plan. When passed on to a beneficiary at death, these taxes become the beneficiary's responsibility. Life insurance death benefits can provide liquidity to pay the federal and state income taxes due on IRD Assets. When used this way, life insurance death benefits may restore the full account balance to the person(s) entitled to receive it.

Property Taxes. Many states annually tax the value of real estate—whether used as a principal residence (homestead), seasonal residence (vacation home) or business. Property taxes due in the year of death are seldom forgiven. Instead, the estate is usually responsible for paying them as well as property taxes assessed in future years while the estate owns the real estate. Life insurance death benefits may provide the cash needed to pay these taxes.

Federal & State Estate and Inheritances Taxes. The federal government levies a tax on a person's right to transfer his/her property to others after death. Although designed to apply only to those with relatively high net worths, this tax has one of the highest marginal rates in our tax system. Many states have a similar tax, either in the form of an estate tax payable by the estate or an inheritance tax that is paid by heirs who receive property from the estate. When the estate is large enough for these taxes to be assessed, the total cost can be quite high. Life insurance death benefits may provide the liquidity needed to pay these taxes.

Retirement Flexibility

In addition to providing income tax-free death benefits*, cash value life insurance policies have the potential to provide benefits to policy owners while they are alive. The potential for income tax-deferred cash value growth and income tax-free cash value distributions make it possible for cash value policies to provide their owners with supplemental income in retirement.** A properly funded and well managed cash value policy can be a versatile financial asset with the potential to provide financial flexibility during retirement. These are some of the ways cash value policies may help people during retirement:

Income Tax-Deferred Cash Value Growth Potential. Policy cash values are not subject to federal income taxes while they remain in the policy and the policy owner may potentially receive them income tax free if the distributions are carefully structured.** In addition, cash value distributions are not required at any time prior to the insured's death. Policy owners have the option of taking cash values out of the policy to supplement their retirement income or retaining them in the policy for future use in the event of future emergencies or opportunities. Since distributions aren't required, they have the flexibility to decide when and how to use policy cash values as their individual situation and objectives change.

Distributions (withdrawals or policy loans) from life insurance policies treated as Modified Endowment Contracts ("MECs") under Section 7702A of the Internal Revenue Code are subject to less favorable tax treatment than distributions from policies that are not MECs. If the policy is a MEC, distributions will be taxable to the extent there is any gain in the policy. In addition, if the policy owner is under age 59½ or is a corporation at the time of the distribution, there is a penalty tax of 10% on the taxable amount. Without regard to whether a policy is a MEC, a gain in the policy is taxable on full surrender of the policy.

* Proceeds from an insurance policy paid because of the death of the insured are generally excluded from the beneficiary's gross income for income tax purposes under IRC Section 101.

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Income Diversification. Cash values can be removed from many types of life insurance policies during the insured's life without triggering income taxes. The federal tax law permits taxpayers to withdraw their premium contributions income tax free and also to borrow any cash value growth in excess of premiums free of income taxes as long as the policy remains in force. The ability to extract policy cash values without triggering income taxes allows policy owners a great deal of flexibility in structuring income streams to meet their individual financial objectives. As a result life insurance cash values may supplement other sources of income during retirement and may fund a wide variety of needs.

Asset Protection. In addition to advantageous tax treatment, some states allow life insurance policy owners another valuable benefit: creditor protection. Because life insurance death benefits are often used to maintain the financial security of spouses and children, many states give life insurance cash values and death benefits significant protection from the claims of creditors. The amount of protection varies from state to state, but the bottom line is that life insurance cash values and death benefits may be reserved for family members even when creditors are owed substantial sums of money.

Accelerated Death Benefits. Some insurance policies have another valuable feature that benefits policy owners. In cases where the insured is terminally ill and likely to die within six to twelve months, the policy owner may receive some of the death benefits early, prior to death. These payments can provide financial relief to cope with the expenses and emotional trauma of terminal illness. These payments are income tax free and can be used in any way the policy owner desires. The ability to receive early death benefits is regulated by state law and the amount and timing of the benefit can vary from state to state. This feature is an example of the flexibility a life insurance policy may provide during difficult times.

Accelerated benefits may or may not qualify for favorable tax treatment under the Internal Revenue Code of 1986. Whether such benefits qualify depends on factors such as your life expectancy at the time benefits are accelerated or whether you use the benefits to pay for necessary long-term care expenses, such as nursing home care.

If the accelerated benefits qualify for such favorable tax treatment, the benefits will be excludable from your income and not subject to federal taxation. Tax laws relating to accelerated benefits are complex. You are advised to consult with a qualified tax advisor about circumstances under which you could receive accelerated benefits excludable from income under federal law.

Receipt of accelerated benefits may affect your, your spouse or your family's eligibility for public assistance programs such as medical assistance (Medicaid), Aid to Families with Dependent Children (AFDC), supplementary Social Security income (SSI), and drug assistance programs. You are advised to consult with a qualified tax advisor and social service agencies concerning how receipt of such a payment will affect your, your spouse and your family's eligibility for public assistance.

Business Profitability and Continuation

Two small groups of people make a closely owned business successful. First are the owners who put up the capital to get the business off the ground. Second are the key managers and decision-makers whose ideas, creativity and follow through carve out a profitable niche for the business. When someone in either group leaves through death, disability, retirement or resignation, the business' future is threatened. Life insurance can be a valuable asset in helping solve the problems that occur when a key person in the business leaves.

Business Succession. In closely owned businesses, the voluntary or involuntary departure of an owner can cause big problems. If there is no succession plan in place, business operations may terminate. If there is a plan, it needs to be backed up by money so the departing owner's interest can be purchased. Life insurance may be an efficient way to secure the dollars needed to keep the promises in the agreement.

Loss of a Key Employee. Every business has several key people whose talent, insight and ability are the keys to making it profitable. The unexpected loss of a key person can be a financial disaster. Because key employees are so valuable, businesses must keep them as long as possible and find a way to replace their value if they die unexpectedly. Life insurance is frequently used to reimburse the business for the revenue and profits that can be lost with a key employee's death. It can also provide funds to pay for locating, hiring and training a qualified replacement.

Key Employee Selective Benefits. The challenge family-owned businesses have with non-family key employees is to keep them with the business and give them incentives to do their best. The family seldom wants to give them an ownership interest, so it needs to find financial incentives that recognize the key employee's hard work and make it satisfying to continue. Bonus plans, non-qualified deferred compensation plans, phantom stock plans and split dollar arrangements may accomplish these goals. Life insurance policies are regularly used to fund these types of benefits.

Owner Employee Selective Benefits. Owners of closely owned businesses don't need incentives to make the business profitable. The capital, time and emotional energy they've invested in the business are incentive enough. They need additional ways for their business to secure and improve their personal net worths. Selective benefits can be very useful in helping them maximize the financial benefits they get from their hard work. As with non-family key employees, bonus plans, non-qualified deferred compensation plans, and split dollar arrangements accomplish these goals. Life insurance is regularly used to fund these types of benefits.

For more information
regarding how you can use a life insurance policy as a financial asset, please contact your Voya Financial™ representative.

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127581 09/01/2014

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