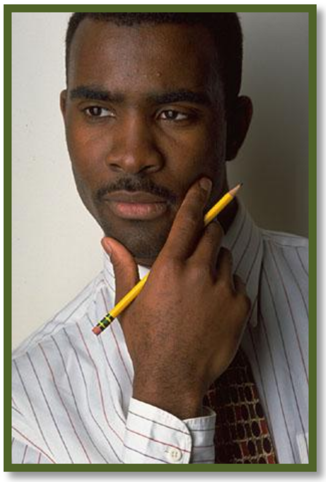

Is Cash Value Life Insurance A Good Savings Vehicle?

It's the question of the ages!

Over the past 40 years or more there has been a lot of questions, discussions and heated debates as to whether or not buying permanent life insurance makes sense.

The primary argument generally revolves around whether you'll have more money when buying permanent life insurance, compared to using some other investment vehicle? However, there is a lot more involved than just how much money you'll have... How long will you need the insurance protection? What do you want the money for? How long before you will need the money? What income tax bracket will you be in when you retire, and more?

In this brief article we're only going to focus on what seems to be the primary issue for most people... whether or not you'll have more money when buying permanent life insurance, compared to other investment vehicles?

So, the first question is... What are you comparing the cash accumulation in the cash value life insurance to? Are you buying term and investing the difference in... mutual funds, stocks, qualified plans, non-qualified plans, municipal bonds, corporate bonds, government bonds, treasury certificates, mortgage notes, CDs, etc?

Most people are being mislead into believing that by investing in the stock market or mutual funds they can earn an average annual return of 10% and that cash value life insurance will only average around 4-5%. Logically an investment that averages 10% is going to accumulate a lot more money than something earning only 4-6%.

Unfortunately, the comparison of investment returns isn't that simple. There is a lot of misinformation, grandiose claims and important information to sort through and consider... such as <u>actual</u> realistic investment returns, annual fees and expenses, withdrawal penalties, income taxes, tax deferral, tax free income, cost of insurance, internal rates of return, ages, health rating, smoker, non-smoker, male, female, etc. These are all extremely important points for you to consider when determining if buying permanent life insurance makes sense for you.

Let's assume you are male age 45. You need and want $250,000 of life insurance. You are a non-smoker, in good health. And you have $6,000 to spend each year for the next 20 years.

If 20 years ago you had purchased a 20 year term policy, with $250,000 of death benefits, the policy would have cost you about $760 per year. That would have left you about $5,240 to invest each year. The question is where would you have invested that money?

How about if you had invested in growth mutual funds, inside of a 401k or IRA, like most people did...

In the 60's the S&P 500 Index had an average annual return of 4.39% over those 10 years.

In the 70's the S&P 500 Index had an average annual return of 1.60% over those 10 years.

In the 80's the S&P 500 Index had an average annual return of 12.59% over those 10 years.

In the 90's, we had one of the best times in the history for the U.S. stock market. The S&P 500 Index had an average annual return of 15.31%.

If you had actually received annual returns comparable to those of the S&P 500 Index during those 40 years (1960 though 2000) you would have averaged 8.33% per year.

However, when you consider that the vast majority of mutual funds didn't even come close to matching the S&P 500 Index over those 40 years, and then you subtract the annual fees of 2.5-4.05%, it gives you an entirely different view of the validity and benefits of investing in mutual funds.

And, we haven't even considered that from the beginning of 2000 through 2008, the S&P 500 Index had a total loss of (-38.53%)… or average annual loss of (-5.90%) over those 8 years.

If you add in the last 8 years, the average return for the S&P 500 Index over the past 48 years is only 5.82%. Now, subtract average expenses of 3.0% and your net return is only 2.82%. And, that's only if you were lucky enough to have found a mutual fund that performed as well as the S&P 500 Index during those 48 years.

The **'2007 Dalbar Report'** tracked investor's behavior in chasing market returns. This report showed that over a twenty-year period (1987-2006), the average investor only earned 4.3% during a period where the S&P 500 yielded 11.8%. And, remember that was in one of the best times in history for the stock market! And, it doesn't include the recent stock market downturn in 2008.

So, if you had purchased a $250,000, 20 year term policy, at $760 per year and then invested the difference of $5,240 annually into a 401k, (No Match) or IRA, with an average annual return of 4.3%, *(From The Dalbar Report)* during those 20 years (1987-2006) you would have had $167,909. And, all of the income you'd take would be taxable. If you were to withdraw $8,395 per year, based on a 33% tax bracket you would get to spend only $5,625.

However, if you had purchased a good $250,000 traditional universal life or whole life back then, and invested the entire $6,000 a year into a policy earning 6% you'd have $166,059. You could take $8,303 of income each year... income tax free!

And, if you could have purchased a $250,000 index universal life back then, and you had invested the entire $6,000 each year into the policy at a rate of 7.55% you'd have $208,608. You could take $10,430 of income each year... income tax free!

Just based on the numbers, it appears cash value life insurance can make a lot of sense for most people.

And, that doesn't consider the many other unique advantages of cash value life insurance...

- Unlike qualified plans, there are no caps (limits) on how much money you can save each year. (You are only limited by the size of the policy.)
- Your cash values accumulate tax deferred.
- You have a liquid **'emergency fund'** for life's unexpected events.
- The cash values can be accessed income tax-free and penalty free prior to age 59½.
- Cash value life insurance is not attachable by creditors.
- Cash value life insurance doesn't count as an asset when you apply for college financial aid.
- By over funding a cash value life insurance policy, up to the MEC guidelines, it can become "investment grade life insurance." (Missed Fortune Concept)
- The cash accumulated in your policy can provide you with a tax-free income in retirement. (Taking withdrawals up to the cost basis and then borrowing the remainder)
- You'll have the protection of life insurance in your retirement years, to replace lost pension and social security income at your death… ('Pension Max' concept)
- Unlike qualified plans and annuities, the death benefits and cash values are transferred income tax free to your beneficiaries.
- Cash value life insurance generally bypasses probate. (And it is private, no public records)
- Cash value life insurance can be used to pay income taxes on qualified plans and your estate taxes at your death.
- **Safety** - All 50 states have something similar to FDIC for life insurance policies and annuities... Plus, insurance companies must, by law, cover at least 100% of their liabilities with reserves, hence the term "100% legal reserve life insurance company." There are also regulations as to the percentage that can be held in certain forms of assets. This system has produced a remarkable overall record of solvency and safety.
- **Guarantees** - Only Life Insurance and Annuities guarantee your investment principle, and offer you minimum growth guarantees for the life of the contract.

If you need life insurance and can get similar returns to the stock market without the risks, more guarantees, tax free income, plus many more benefits, then why wouldn't you buy cash value life insurance?

Provided By Manuel Negron
President & Founder, GenWealth Financial
www.genwealthfinancial.com