STRATEGY

LIFE INSURANCE

Permanent Life Insurance and Your Financial Plan

HOW LIFE INSURANCE CAN PLAY A ROLE IN REAL ESTATE INVESTING

by Chad Esslinger

As a real estate investor, it's highly likely that your financial portfolio is impeccable. You likely are used to gauging the short- and long-term possibilities, and you probably think you have planned for every scenario. There is one cornerstone, however, that you might have overlooked: permanent life insurance.

Perhaps you've heard about it before, but the benefits weren't clear or it wasn't explained in a way that made sense. Here's what you should know.

RENTING VS. OWNING

But I already have life insurance, you might be thinking. Chances are, it could be term life insurance — not permanent life insurance.

What's the difference?

The easy way of looking at these options — and to bring it back to real estate — is to liken term life insurance to renting a home and permanent life insurance to owning a home.

With term life insurance, you pay monthly or yearly premiums for a set number of years, could

be 5, 10, 15, maybe 20 years, depending on your insurability. If you die during that time frame, your insurance company will pay out the death benefit to your beneficiary. However, if you don't die during the term, the policy will go away once the term is over (meaning your beneficiary will not receive a death benefit). You have no equity in the policy, and no payout.

With permanent life insurance, you're buying the policy for the rest of your life, and as long as you pay your premiums, it doesn't expire. It's always there, no matter when you die. This option has an accumulated value component, which is guaranteed to grow over time.

The death benefit is typically tax-free for both term and permanent policies. Permanent life insurance also has several key tax advantages. In addition, the accumulated value growth is tax deferred — you would only owe tax on the growth if you surrender your policy and take out the money. You can always take the amount you paid into your policy tax-free. However, just know this will impact the policy death benefit.

THE DEATH BENEFIT

Long story short, permanent life insurance helps protect what is most important to you.

A permanent life insurance policy can help you build a legacy. Upon your death, the death benefit will go to your beneficiary, tax-free, so you can feel a sense of financial security knowing that even after you are gone, your loved ones will be taken care of.

The same goes for your real estate assets — outstanding debts may be taken care of without becoming a burden to your next of kin.

Additionally, you can limit your premiums to term life insurance because you know you have a plan that won't expire at a future date.

THE LIVING BENEFITS

Accumulated value is one of the key living benefits of permanent life insurance. As you pay premiums over time your policy begins to accrue cash value that you can access at any time for any reason[1].

Perhaps you'd like to use your cash value to make a down payment on a new property or that vacation home you've been dreaming of — this is possible.

You can also take out a life insurance loan[2] against the cash value you've accumulated (once it has grown to a substantial amount), tax-free.

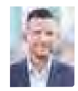
Think of your permanent life insurance policy as being a house with equity, and you're borrowing against it for a line of credit. This kind of loan can serve as a backup for you — especially during down markets so you aren't forced to sell your other assets at losses.

BACK TO THE FUTURE

Permanent life insurance can be a great asset as part of your overall, long-term financial plan. It may not be the most exciting part of your plan, but it is a way to help ensure protection for everyone and everything you hold dear.

It's worth taking the time now to consult the right financial advisor, one who can help you maximize your policies for the goals you want to achieve down the road.

The future you will thank the current you. •



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NOTES

1 Accessing your cash value will reduce your death benefit

2 Your policy's cash value typically becomes a useful source of funds only after several years of premium payments, which allows the cash value to build up. Each method of utilizing your policy's cash value has advantages and disadvantages and is subject to different tax consequences. Surrenders of, withdrawals from and loans against a policy will reduce the policy's cash surrender value and death benefit and may also affect any dividends paid on the policy. Policy loans and automatic premium loans, including any accrued interest, must be repaid in cash or from policy values upon surrender, lapse or the death of the insured. Policyowners should consult with their tax advisors about the potential impact of any surrenders, withdrawals or loans. Cash value growth is not taxed if held until death. Generally, cash value from the surrender of your policy is taxed only when it exceeds premiums paid