



LIFE INSURANCE: YOUR WELL-BEING ASSET

A WEBINAR FOR EMPLOYEES FROM YOUR
EMPLOYEE ASSISTANCE PROGRAM

July 13, 2022

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OBJECTIVES

- Define basic types of life insurance
- Discuss what the government provides you
- Understand how different types of life insurance function
- Decide when to apply life insurance to your life
- Explore benefits beyond life insurance's death benefit

SECTION 1

BASIC TYPES OF LIFE INSURANCE

GROUP VS. PRIVATE INSURANCE

Group:

Provided by your employer (FEGLI) while employed and sometimes carried into retirement

- Underwritten for entire group, regardless of individual health
- Can typically add multiples of your salary for a life-changing event, such as:



Marriage



Divorce



Birth of a child



Death

GROUP VS. PRIVATE INSURANCE

Private:

Purchased on your own, outside of your employer

- Underwritten individually
 - Healthy individuals receive cost savings and/or more benefits
- There are two main types:

 Term

 Permanent

SECTION 2

TYPES OF PRIVATE PAY LIFE INSURANCE

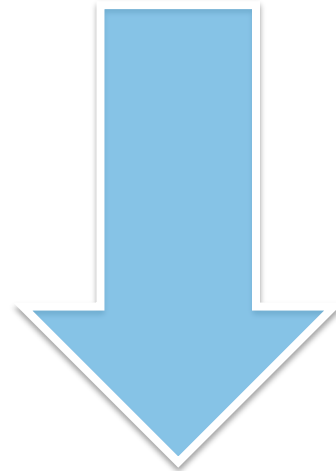
PRIVATE PAY INSURANCE: TERM LIFE

- Provides coverage for a specified time or term period
 - Typically up to 30-year terms
 - If you die within the policy-defined time period, your beneficiaries receive the face value of the policy



Pros

- Significantly more affordable
- Potentially convertible to permanent insurance later
- Premium is protected against death

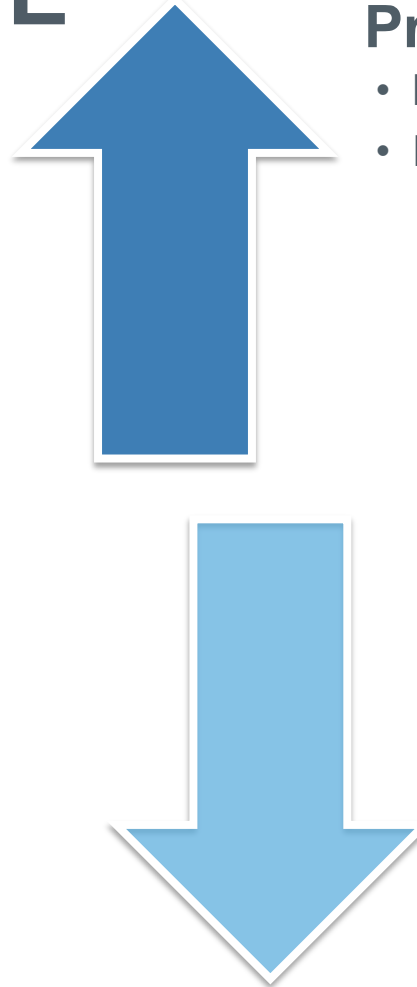


Con

- Premium is forfeited if you don't die within the term

PRIVATE PAY INSURANCE: PERMANENT LIFE

- Provides coverage for as long as you live
 - You pay a premium for your lifetime or a pre-determined amount of time
 - Upon your death, benefits are paid to your beneficiaries
 - Typically comes with a cash value savings element



Pros

- Refundable paid premiums
- Includes additional benefits:
 - Cash value account that earns interest
 - Death benefit can be used in the event of a chronic illness
 - Is a conservative investment, long-term care (LTC) alternative, tax-shelter for qualified money, and an estate planning tool

Cons

- More expensive than term life
- Paid premiums are partitioned:
 1. Cash value
 2. Cost of insurance

SECTION 3

TYPES OF PERMANENT LIFE INSURANCE

PERMANENT LIFE INSURANCE: UNIVERSAL INDEXED



- Cost increases annually
- Purchased in a one-year term
- The younger you are, the less expensive it is



- The policy could lapse if it:
 - Isn't properly funded
 - Doesn't earn enough interest



- Policies can include chronic illness waivers



- Premiums can be flexible
- During life of policy, you can:
 - Pay extra or less
 - Halt payment altogether

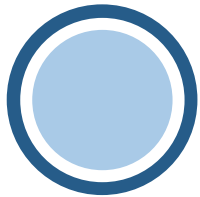


- Premiums fund two sides of the policy:
 - Cash value
 - Death benefit



- Any premium paid above the cost of insurance goes into cash value side
- Interest is earned based on investment performance

PERMANENT LIFE INSURANCE: UNIVERSAL VARIABLE



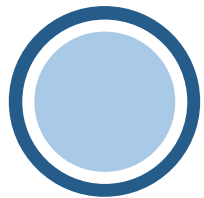
Similar to universal indexed, with a key difference:



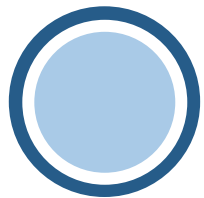
The cash value is invested into stocks, bonds, and mutual funds

- The policy could lose money and potentially lapse based on poor investment performance

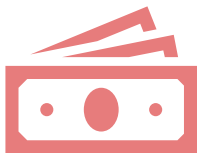
PERMANENT LIFE INSURANCE: WHOLE



Unlike universal life insurance, the cost of insurance is fixed and doesn't increase over time



Premiums fund two sides of the policy:



Cash value



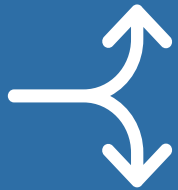
Death benefit

PRIVATE LIFE INSURANCE KEY POINTS

Benefits from life insurance are tax free

- Death benefits pass to heirs 100% tax-free
- Cash value plus interest earned can be accessed and withdrawn tax-free

Cash value can be accessed via:



A straight distribution

- May reduce the amount of benefit that is payable on death or for an LTC event



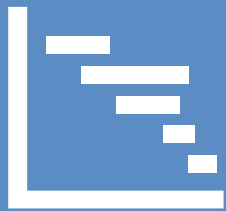
A loan against the policy

- You are charged an interest rate
- Structured properly, loan amount can remain in cash value earning interest
- Any outstanding loan upon death is paid back from the death benefit

PRIVATE LIFE INSURANCE KEY POINTS



Some permanent policies allow early death benefit access in qualifying long-term care situations



Depending on whole or universal life, policies can be structured in many ways, including:

- Favoring the death benefit vs. cash value
- Joint policies on spouses
- Long-term care-focused



Most importantly, consult with a comprehensive financial advisor and buy the tool that best fits into your long-term financial plan

SECTION 4

FEGLI

FEDERAL EMPLOYEES'
GROUP LIFE INSURANCE

FEGLI

Federal Employees' Group Life Insurance

Provided by the Federal Government

Your health doesn't matter

Elect when hired or upon a life changing event

Can add during special open enrollment periods
(None are currently scheduled)

Can reduce at any point

FEGLI OPTIONS

Basic

Your salary, rounded up to the next \$1,000, plus \$2,000

\$.3467 a month per
\$1,000

Example: \$100,000 =
\$34.67/month

FEGLI OPTIONS

Option A: Standard

\$10,000 in additional coverage on your life

Cost increases every five years

Age Group	Biweekly	Monthly
Under 35	\$0.20	\$0.43
35–39	\$0.20	\$0.43
40–44	\$0.30	\$0.65
45–49	\$0.60	\$1.30
50–54	\$1.00	\$2.17
55–59	\$1.80	\$3.90
60+	\$6.00	\$13.00

FEGLI OPTIONS

Option B: Additional

1-5x your
salary in
additional
coverage on
your life

Age Group	Biweekly per \$1,000	Monthly per \$1,000
Under 35	\$0.02	\$0.043
35-39	\$0.02	\$0.043
40-44	\$0.03	\$0.065
45-49	\$0.06	\$0.130
50-54	\$0.10	\$0.217
55-59	\$0.18	\$0.390
60-64	\$0.40	\$0.867
65-69	\$0.48	\$1.040
70-74	\$0.86	\$1.863
75-79	\$1.80	\$3.900
80+	\$2.88	\$6.240

FEGLI OPTIONS

Option C: Family

1-5x multiples on your eligible family members' lives

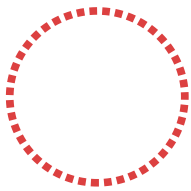
Each multiple equals:

- \$5,000 for your spouse
- \$2,500 for eligible dependent children

Age Group	Biweekly per multiple	Monthly per multiple
Under 35	\$0.20	\$0.43
35-39	\$0.24	\$0.52
40-44	\$0.37	\$0.80
45-49	\$0.53	\$1.15
50-54	\$0.83	\$1.80
55-59	\$1.33	\$2.88
60-64	\$2.43	\$5.27
65-69	\$2.83	\$6.13
70-74	\$3.83	\$8.30
75-79	\$5.76	\$12.48
80+	\$7.80	\$16.90

FEGLI IN RETIREMENT

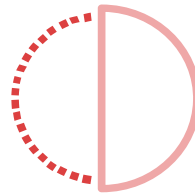
If you meet the requirements, you must choose what will happen to your Basic FEGLI when you turn 65 or retire (whichever is later)



No reduction

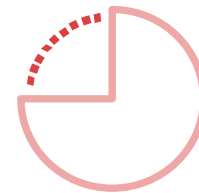
Basic coverage does not reduce

Cost is equal to what was deducted from your paycheck



50% reduction

Basic coverage reduces 1% each month until it reaches 50% of its pre-reduction amount



75% reduction

Basic coverage reduces 2% each month until it reaches 25% of its pre-reduction amount

Cost is free starting at age 65

Keep in mind: Carrying FEGLI into retirement can get increasingly costly as you age, especially if you have Option B

SECTION 5

LIFE INSURANCE STRATEGIES

EXAMPLE 1: USING INSURANCE AS AN INVESTMENT STRATEGY

50
years old
retiring
at 65

Investing in the “G” fund

- Maxing out your TSP (L2040 fund) contribution at \$26,000/year
- The L2040 invests roughly 25% into the G Fund for the next 15 years (\$6,500 a year)
 - At a projected interest rate of 1.5%, this equals \$110,000
 - From 65 on, you earn roughly \$1,500 in interest a year

Utilizing cash value of your insurance policy

- Take out \$6,500 a year from your policy
 - Projected cash value at the end of 15 years is \$125,150
 - Includes death benefit of \$221,450
 - You earn roughly \$6,500 in interest a year

EXAMPLE 2: USING INSURANCE TO LEVERAGE ASSETS FOR LTC

65-year-old retiree

Roughly \$750,000 in lifetime savings

- Between pension and social security, you need about \$15,000 a year in extra income (2% of your life savings)

For 10 years

- Put 2% of savings into a 10-year life insurance policy with an LTC rider

After 10 years

- You have \$150,000 of available cash
 - If in LTC, you can use the benefit of \$80,000 annually for six years
 - If unused, the benefit increases each year
 - If you die without using the LTC benefit, the \$150,000 premium goes to your heirs tax-free

EXAMPLE 3: USING INSURANCE TO CREATE A TAX-FREE ESTATE

65-year-old retiree

\$500,000 in traditional assets

- Assume a 5% rate of return, 22% tax rate, and 28% inherited tax rate

Wait until 72 to take RMDs, reinvest them, then die at 85:

- Lifetime/inheritance taxes paid: \$471,000
- Net balance of IRA to heirs: \$705,000
- Net balance of re-invested RMDs to heirs: \$287,000
- Total projected after tax: \$992,000

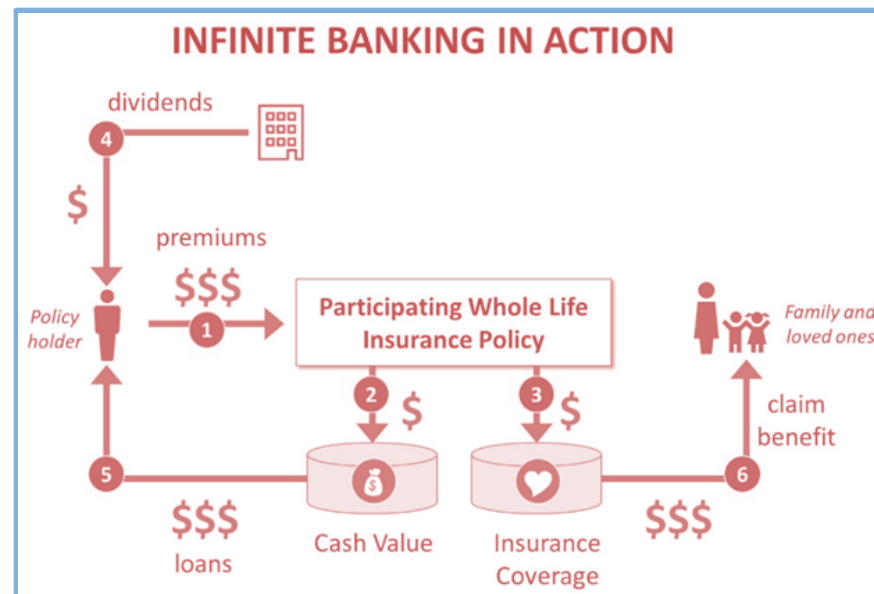
Withdraw 4% a year and reinvest in permanent life insurance

- Lifetime/Inheritance taxes paid: \$295,000
- Net balance of IRA to heirs: \$455,000
- Net balance of life insurance benefit to heirs: \$685,000
- Total net benefit to heirs: \$1,140,000
 - \$685,000 is guaranteed regardless of investment strategy

EXAMPLE 4: USING INSURANCE TO BE YOUR OWN BANK

“Infinite Banking” Concept

Effectively **pays interest to you instead of to the bank** any time you need to pay off debt or take out a loan (e.g., for a new car or house)



LIFE INSURANCE KEY POINTS

Plans can be structured in different ways



Higher cash value, lower death benefit



More potential for growth
(but more potential for loss, too)



More guarantees, fewer unknowns
(and vice versa)



More living benefits, fewer death benefits



Choose an advisor who can help you make a well-rounded plan!

Life insurance is a tool

– Used efficiently, it can be a valuable asset to:



Leverage your estate



Create tax-free savings



Provide extra living benefits



Allow for more financial freedom

– Used inefficiently, it can be an added cost that doesn't provide a lot of value

SUMMARY

Group

- Health doesn't matter

Private

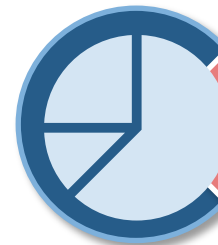
- Health matters
- Term: Use it or lose it / costs less
- Permanent: Keep forever / costs more
 - **Universal**
 - » **Indexed:** Fewer guarantees, more potential for cash value growth, increasing cost
 - » **Variable:** Risky but if stocks perform well over time, benefit and cash value could grow significantly
 - **Whole**
 - » Provides guarantees
 - » Steady interest in cash value
 - » Steady death benefit

FEGLI

- Group term insurance
- Can pay to keep when you retire

Uses for life insurance

- Tax planning
- LTC
- Infinite banking
- Conservative investing
- Tax-free income



Always consider
your whole
financial plan

RESOURCES

Books

- ***Tax Free Retirement 10th Anniversary Edition***
 - Patrick Kelly, 2018
- ***I.U.L. ASAP: How to Win the Financial Game of Life, Invest Like the Wealthy, and Generate Tax-Free Income with One 3-Letter Word***
 - Shirley Luu, 2021

Websites

- The Institute for Financial Education
 - ifeonline.org | myife.org
- Insurance Ranked
 - insuranceranked.com

Online Articles

- Best Life Insurance Based on In-Depth Reviews
 - consumersadvocate.org/life-insurance
- Life Insurance Guide to Policies and Companies
 - investopedia.com/terms/l/lifeinsurance.asp
- Life Insurance Policies, Quotes & Companies: June 2022
 - nerdwallet.com/a/insurance/life-insurance
- 6 Uses of Life Insurance in Financial Planning
 - forbes.com/sites/jamiehopkins/2021/07/01/6-uses-of-life-insurance-in-financial-planning

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