Five Reasons to Treat **Life Insurance as an Asset Class**

WRITTEN BY

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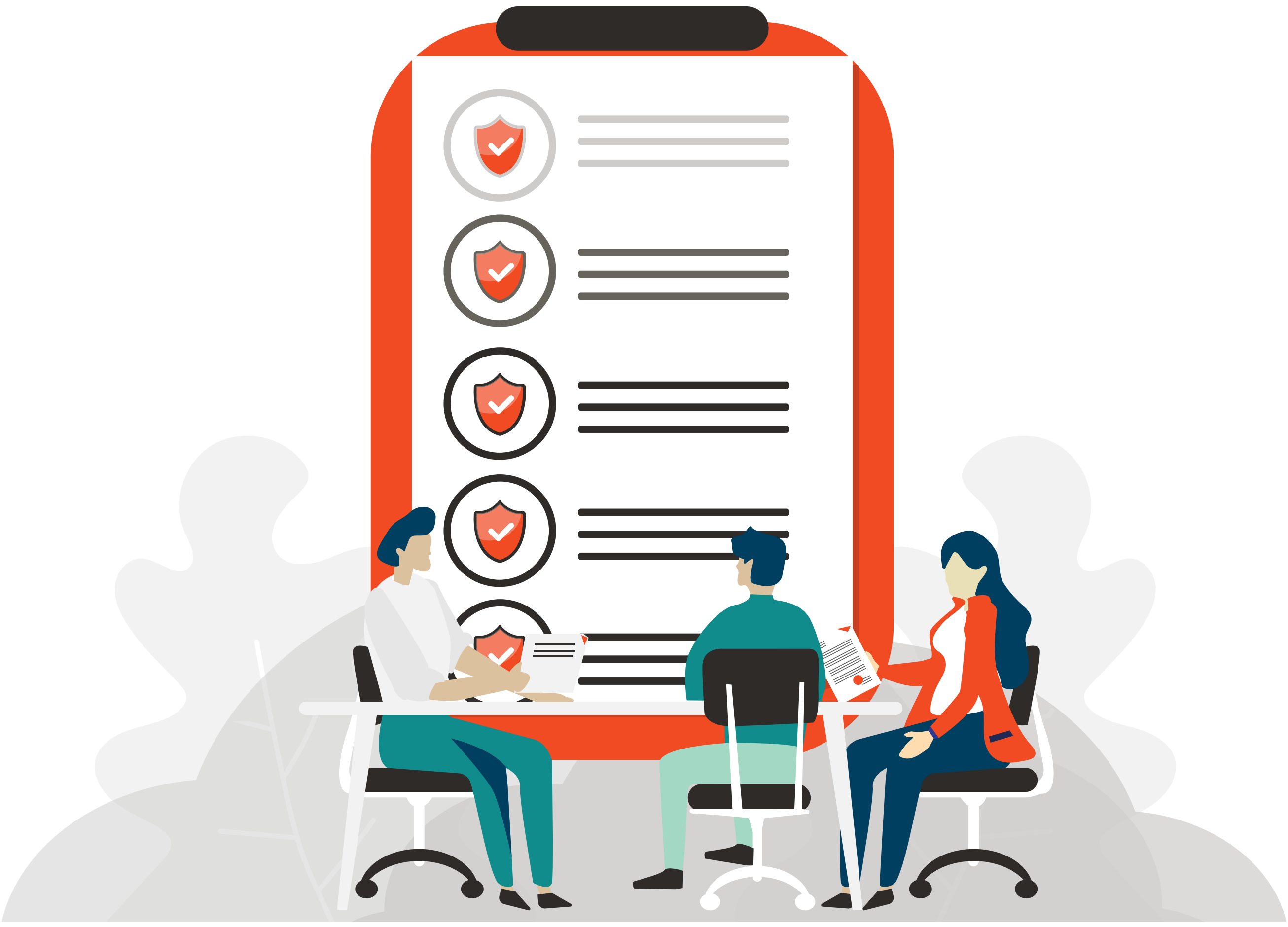

The traditional lens of life insurance views it simply as a tool to pay off debt, replace lost income, or to fund estate taxes. This myopic perspective ignores the value of treating life insurance as a unique asset class. Advisors failing to take a broader view of life insurance do themselves and their clients a disservice. Here are five reasons to view life insurance as an asset class.

The safety net

While life insurance provides the aforementioned benefit to replace lost income or pay off debt, it can also provide a means for clients to achieve their desire to leave a legacy for family members and allow broader flexibility in retirement. Consider the scenario where a client's retirement plan intends to only tap into the earnings on their retirement portfolio without encroaching on the principal. The principal is intended to be the legacy passed on to family members. Having life insurance in place can allow the client to tap into principal if needed while preserving the intended legacy. In the event the life insurance policy has significant cash value, it could also serve as an additional source of emergency income.

No other asset affords the client the ability to spend more if needed with a ready-made replacement of the wealth at death. Of course, cash value from a policy surrender could become part of the assets you manage for clients. The death benefit could become a managed asset too (especially if trust owned) which leads to our next point.

The relationship bridge

Studies[i] over the years have indicated that anywhere from 66% to as high as 98% of children leave their parents' financial advisors upon receiving an inheritance. A glaring reason is the parents' advisors never built a relationship with the next generation. Part of this comes from planning when the children are young or in the early years of being on their own when discussions with the parents often centers on what the parent wants for the child – not what the child wants. Everything was focused on the parents' assets as the children didn't have assets yet.

Would you want to work with an advisor who ignored your perspective for years and didn't have the time of day for you until you inherited wealth? Of course not. How do advisors create a relationship with the next generation? There are many possible ways but life insurance is one of those topics that can help you create a relationship with the next generation early on so they learn how you can help them. Having a conversation with them about planning for family protection using life insurance opens the door to discuss income goals, plans for having children, and educational goals. It can lead to conversations about starting a business or planning for care for their parents. What about a combination of protection with a savings element?

Life insurance can be the perfect tool to engage with the next generation because it naturally entails planning and aspirational discussions. Clients are more likely to stay engaged with you if they feel you understand them.

[i] https://www.investmentnews.com/the-great-wealth-transfer-is-coming-putting-advisers-at-risk-63303; https://www.thinkadvisor.com/2016/03/01/how-advisors-can-stop-losing-clients-heirs-as-clients/

The unique tax characteristics

Life insurance (structured properly) has a unique set of tax characteristics that greatly enhance the value of the policy. The death benefit isn't subject to income taxation. The cash value may be accessed free of income tax – including the growth of the cash value – as long as the policy is maintained until death. Sure, that's not anything new. However, if you've been paying attention to the numerous new tax proposals flying around Congress and the White House, income tax planning could become more critical than ever. Many of the proposals that keep popping up have income thresholds that trigger additional taxes, higher tax rates, or loss of some deductions. As life insurance distributions are either a return of cost basis or a loan, they don't inflate income and wouldn't factor into these new proposals.

Things happen in life that bring unexpected expenses. Liquidating assets often creates a tax liability. What if you were able to provide your clients with a financial vehicle that provided an income tax free death benefit, but which also could have a pool of cash that could be accessed without creating a corresponding tax liability? Would your clients find value knowing they had such a tool in their back pocket? Wouldn't it lead to more conversations about spending and planning over time? There are even a few new life insurance products that allow AUM fees to be collected on the policy cash values that are invested.

The asset that doesn’t behave like other assets

A life insurance policy with a guaranteed premium and death benefit provides an asset that won’t rise and fall with stock market fluctuations. Owned properly, it won’t increase estate taxes at death. It also avoids the risks of illiquid assets that may not be convertible into cash when needed. As such it can provide an element of a client’s wealth transfer plan that is rock solid which allows flexibility for the client in their other planning and asset choices. Having the guaranteed liquidity could mean the client doesn’t have to hold more liquid assets than desired. It can allow a client to take on more investment risk knowing there’s a backstop.

Keeping the bugs out

If you’re not having these conversations with your clients, you are leaving an opening for other advisors to get inside the tent. Whether it’s something as simple as a life insurance review or a mention of a marketing buzzword like a, “Super Charged Roth Alternative”, there are always bugs trying to get in the tent. They want your clients. You can be the exterminator by discussing life insurance with your clients, or you can let them take a bite out your clients.

For those with fiduciary obligations, are you doing your fiduciary duty if you ignore a major asset at the disposal of your clients? What’s the downside of having these conversations?

All of this leads to engaging in meaningful conversations with clients which can lead to more opportunities for additional assets under management, new sales, new loans, new planning revenue and stronger client bonds with the current generation and future generations. Adopting the asset class perspective of life insurance allows you to truly maximize the lifetime client value to your organization while simultaneously benefiting the client and their family in numerous ways.

About the Author - Mike Pepe

Mike Pepe capitalized on his nearly 20 years of life insurance policy expertise by launching Proformex, an inforce policy management platform that helps fiduciaries, financial planners, insurance brokerages and agents monitor, manage and govern their life insurance policies. Its SaaS (Software as a Service) solutions are designed to proactively alert customers of potential problems with their life insurance policies and protect against degradation and asset erosion.

Prior to founding Proformex and serving as its Chief Strategy Officer, Mike started in the life insurance business with Mass Mutual and quickly became a leading agent. Soon after, he cofounded River Financial Group, a full service financial advisory firm. His focus was on building a highly successful financial planning practice which took into account the various parts of a holistic financial plan. As he focused on estate planning, he started The TOLI Group, a life insurance firm which was designed to fill the gap in the market for insurance consulting and the need for ongoing policy monitoring and management support, especially as it relates to trust owned life insurance.

About Proformex

At Proformex, we're reimagining how the industry thinks about protection assets. Your inforce data is valuable. We connect you to it. The result is an end-to-end digital solution to manage life and annuities. We help you maximize potential from your inforce business - increasing the lifetime value of your client relationships, mitigating policy and reputational risk, and creating new opportunities for revenue growth.

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