

# Episode #205: The 6 Most Popular Ways to Use Life Insurance in a Financial Plan

## Video Transcription

Hi, welcome to this week's episode of "Money Script Monday." My name is Laurence Williams. Today we're going to be talking about the six most popular ways to use life insurance in a financial plan. Before we begin, I just want to start off by saying that blanket financial advice is never good. What's important when you're looking for a financial advisor or a fiduciary is you want to work with somebody who's going to be goal-based or solution-based focus to really get your specific wants and needs accomplished. I oftentimes refer to financial planning like a roadmap. You're at point A and you want to get to point B the most efficient way possible. There's a lot of different ways to get there, but it's the financial advisor's job to make sure they guide you, get you there safely, and ultimately give you that peace of mind.

With life insurance, it's oftentimes been considered the Swiss Army Knife of financial planning because it has so many different solutions. When properly executed can fit really, really nicely in an overall financial plan. Now there's many uses of life insurance, but today we're going to review six of the most popular uses for life insurance. The first one, I think everybody is probably the most familiar with is income replacement. When you think about it, when you're 35 to 65 or 55, I should say, in your core earning years. That's when you're making the most amount of money. If you were to pass away during that time, you're really leaving your loved ones and your family in a very, very tight, uncomfortable position. So oftentimes people will consider purchasing life insurance to supplement that lost income, you know, when you think about mortgages or college expenses or even funeral expenses. Having something in place will help make sure that your family and loved ones can continue to live on.

Oftentimes the type of insurance used here is going to be typically term insurance. Next, we have college planning. In college planning, believe it or not, if you have a cash value life insurance policy, you can actually leverage the cash value in that policy to pay for your student tuition. In addition to that, that cash value life insurance doesn't count against you for your EFC.

You may ask, what does that mean? What that means is that your student or whoever you're helping go to school may actually now be able to be eligible for any student grants, maybe scholarships or even perhaps financial aid. So it's important when looking at a strategy like this, that you actually are finding and doing a research to work with a certified college planner. Next is we have retirement planning. Now with retirement planning, I want to start off by saying that life insurance is not an investment.

What it is, it's another savings component that you can utilize in your overall financial plan. Think of maybe like your 401k or, you know, a Roth IRA, those are different savings tools that you use in your financial plan to help you in later years of your life, and life insurance can be utilized the exact same way. If you think about maybe the three types of money. You're taxable, you're tax-deferred and tax-free. Cash value life insurance fits into the tax-free bucket. And we'll talk about some of the tax advantages here coming up. Next is going to be tax diversification. Now with tax diversification, cash value life insurance allows clients to take advantage of a lot of the tax code that has been specifically designed for life insurance. That a lot of other vehicles don't have. For instance, cash value life insurance. The premiums that you contribute into your policy are contributed and then grow tax-deferred.

If you choose to take a policy loan from your policy, you can choose to take that policy loan. And when you get that money, it's completely income tax-free. And then of course, if you were to pass away, that death benefit that would be paid to your beneficiaries, that also is income tax-free. Now you may say, well, I have a life insurance policy and maybe it's not the policy that I want anymore. Well, you're not stuck because life insurance again has so many tax qualities. There's something called the 1035 exchange. And in a 1035 exchange, if you have a current policy that maybe you're not satisfied with, maybe there's better products out there that suit your needs. Well, you can actually do a replacement and replace your existing policy, take the cash value from that policy into the new one completely tax-free.

A lot of tax advantages with life insurance. Next is we have business needs. I've oftentimes said in some of these recordings before that, businesses are the lifeblood of America, you know, when you think of business owners, their main concern is to make sure that their employees are being paid and that their businesses will continue to live on. If you have a business with one or multiple partners, and one of them passes away, it's really important that the best interest of the other business owners are able to continue to keep the business going and

so oftentimes what people will consider purchasing is what's called the buy-sell agreement. Last but not least, we have estate planning. Now we all have an estate. I think, for the most part, we all want to make sure that we can transfer our estate in the most tax-efficient way possible.

It just so happens that life insurance allows us to do that because of the liquidity that it provides at death. By having that liquidity, it allows us to pay for any expenses for the estate, as well as potentially any estate tax. Now, if you've been paying attention to any of the news out there, they've talked about potentially raising the estate tax to 30, to maybe 40%. And so you may ask yourself, well, how would I pay for those estate taxes when I'm not here? Sometimes life insurance, again, when properly structured could be a great solution for that. Now, today, we went over again, six of the most major and most popular uses of life insurance. Some of them may apply to you and some of them may not. But the point of this is we wanted to let you know that there's options out there. And by working with your financial advisor, hopefully, you can find one of these options that may fit within your financial plan. Thanks again for watching. We'll see you next time.