• Increase your knowledge about financial planning
• Improve your ability to make informed decisions
Creative Uses of Life Insurance
Marc Miyama

Insurance Advisor

First Hawaiian Bank
Wealth Advisory Division
Lesson Objectives

- Understand traditional uses of life insurance
- Learn new concepts and uses of life insurance that may enhance your financial plan
Creative Uses Of Life Insurance

LIFE INSURANCE AWARENESS MONTH
Brought to you by Life Happens®
Life Insurance Has Many Uses

• Traditional Uses
  • Pay off mortgage
  • Pay off debts
  • Provide for education for the children or grandchildren
  • Provides monthly income for survivors

• Used properly, it can have many additional uses
Supplemental Retirement

Make the Rest of Your Life
the Best of Your Life

Take Charge of Your Money

Live Life
FUTURE
Hobbies
MONEY
INCOME
Freedom

© Can Stock Photo - csp13779951
Structuring a life insurance policy to allow for income tax free distributions in the future to “supplement other retirement income”
1. Using after tax premiums
2. Policy should be designed as a non Modified Endowment Contract (MEC)
3. Minimize the death benefit based on premium available
## Supplemental Retirement Options

### Traditional IRA
- Yes on Annual Limits on Contributions
- Yes on Pre-Tax Contributions
- Yes on Tax-Deferred Accumulation
- No on Tax-Preferred Distribution
- No on Income Tax Free Death Benefit

### Roth IRA
- Yes on Annual Limits on Contributions
- No on Pre-Tax Contributions
- Yes on Tax-Deferred Accumulation
- Yes on Tax-Preferred Distribution
- Yes on Income Tax Free Death Benefit

### Qualified Plan 401(K)
- Yes on Annual Limits on Contributions
- Yes on Pre-Tax Contributions
- Yes on Tax-Deferred Accumulation
- No on Tax-Preferred Distribution
- No on Income Tax Free Death Benefit

### Mutual Funds
- No on Annual Limits on Contributions
- No on Pre-Tax Contributions
- No on Tax-Deferred Accumulation
- No on Tax-Preferred Distribution
- No on Income Tax Free Death Benefit

### Non-Qualified Deferred Annuity
- No on Annual Limits on Contributions
- No on Pre-Tax Contributions
- Yes on Tax-Deferred Accumulation
- No on Tax-Preferred Distribution
- No on Income Tax Free Death Benefit

### Life Insurance
- No on Annual Limits on Contributions
- No on Pre-Tax Contributions
- Yes on Tax-Deferred Accumulation
- Yes on Tax-Preferred Distribution
- Yes on Income Tax Free Death Benefit
Examples for Male Age 45 Qualifying as Preferred Nonsmoker

- Premium of $25,000/year for 20 years ($500,000)
- Distributions payable from age 66 to age 80
- $77,681 yearly using Indexed Universal Life
- $63,135 yearly using Whole Life
People That Might Consider This Option

- Anyone that has maxed out all qualification plan contributions for the current year and the foreseeable future
- Higher earners
Annuity Maximization
Deferred annuities are an excellent way to save money for the future.

However if the purpose changed as the years passed and now you wish to leave the money to heirs, there are other options.
• Non-spouse

• Nonqualified annuity
  • Full distribution is subject to Income in Respect of a Decedent (IRD)
  • Must distribute over 5 years
• Qualified plan annuity (fully taxable)
  • Entire distribution
  • Must distribute over 5 years
  • Stretch IRA over life of beneficiary where applicable

• While some annuities pay a “death benefit”, it is not usually treated income tax free like life insurance
Annuity Maximization Strategy

- Reposition annuity into an immediate annuity
- Or take annual distributions from the annuity
- Use the income to purchase a life insurance policy
- The income tax free death benefit will normally exceed the net amount payable from the annuity by a multiple depending on the ages
Example For Husband & Wife Age 70

- Annuity value is $500,000 currently
- Cost basis of annuity is $250,000
- Projected value in 20 years is $903,056
- Taxable gain is $653,056
- Ordinary income tax of $195,916
- Net to family of $707,140
• Husband & wife do not need the income so they purchase a joint life and cash refund annuity paying $2,615 ($31,380 annualized)

• They use the income to purchase a second to die life insurance policy for $1,118,620 which will go to the family income tax free
Annuity provides the family $707,140 after a 30% IRD tax

Life insurance provides the family $1,118,620 tax free

Advantage is $411,480

Note: medical qualification, future tax rates, interest paid on annuity and cash flow from immediate annuity may cause different results
Any non qualified deferred annuity funded after 1982 with new after tax money, distributions will be taxed as income as follows:

- Interest earned is taxed first
- Once all interest is distributed and taxed, then after tax principal is distributed
Summary

Life Insurance can be used:

- Own personal benefit
- Benefit for beneficiaries
Take Charge of Your Money

- Visit Us

www.ctahr.hawaii.edu/tcym

- TV channels
  - 354
  - 355
We would like to thank the following groups for their support:

- University of Hawai‘i at Mānoa
  - College of Tropical Agriculture & Human Resources, Cooperative Extension Service, Department of Family & Consumer Sciences
  - Information Technology Services-Academic Technologies
- First Hawaiian Bank
  - Wealth Advisory Division