Planning for the Three Phases of Life

By Jason Oshins, MBA

From a wealth planning context, life unfolds in three phases: wealth protection, wealth access and enjoyment, and wealth transfer and replacement. This article focuses on the role of life insurance in each of these phases. When approaching planning with an eye for the long-view, the decisions you make might be dramatically different. After all, context is everything.

WEALTH PROTECTION

Wealth takes time to accumulate. In this phase, while wealth is accumulating, life insurance protects the family from an unexpected premature death. Obviously, we can't address the emotional component, but we have the ability to address the financial element and create a financial existence that comes closest to what otherwise would have existed. Insurance guarantees the realization of the estate in the event of a death. Here, we're providing for the possible, not the probable. For this phase, either term insurance or permanent insurance will suffice. Most important is coming as close to human life value[1] as we can - the focus is on the total amount of life insurance.

⇒ Key questions to ask:

- What are the financial consequences to those who depend on you should you die?
- How can you create a financial existence closest to the one you otherwise would have provided?
- As a business owner, what are your financial obligations to your partner(s) and employee(s)?

WEALTH ACCESS AND ENJOYMENT

In this phase, the focus is on accessing and enjoying a lifetime of wealth accumulation. Many people employ the traditional "capital at work" retirement strategy of living off the interest generated by their assets. They allow the term insurance they owned during their working years to lapse, as they no longer perceive it as having value. Then, with each passing year, inflation will result in everything around them getting more and more expensive. They are forced to choose between a compromised lifestyle and a compromised nest egg. Do they dine out and travel less frequently, or do they leave behind less and play a game of chicken with their wealth as they begin spending down principal? Because they don't know how long retirement will last, they fear running out of money and, in essence, are locked out of their wealth. As we'll review in an example, this strategy requires the most wealth to generate income. What if by restructuring their assets they could generate greater income while still leaving behind the same legacy… all without assuming greater risk?

This is where permanent life insurance can provide an incredible contribution. The example will show how it can provide clients – whether single or a couple – greater access to their wealth. This means, compared to the "capital at work" strategy, they can enjoy more cash flow with the same assets or the same cash flow with fewer assets. Permanent life insurance liberates clients to spend and enjoy their wealth.

Let's look at an easily-extrapolated example – it works whether you multiply the assets by ten or divide them by two. Assume a couple retires with a $1 million investment portfolio, lives off the 4% interest the portfolio provides, and pays 25% in taxes. The traditional "capital at work" model provides for annual gross income of $40,000 and after-tax income of $30,000. Each year, with inflation and increased cost of living, this $30,000 buys less and less. Fear of running out of money prevents this couple from enjoying their wealth. At some point, as they live less and less of a life, they likely will begin accessing some of the principal.

Alternatively, let's suppose this couple owned a $1 million permanent life insurance policy[2] in addition to their $1 million investment portfolio. With the permanent policy backing up the original $1 million in investments, the couple has the mental freedom to spend both the interest and the principal in the investment portfolio. If they choose to spend the entire investment portfolio over a 25-year period, they will have enjoyed nearly two times the cash flow. If the insured dies at any time during this period, the surviving spouse receives the $1 million insurance proceeds plus any amount remaining from the investment portfolio. If both live past age 90, they can access the life insurance's cash value. The point is, they can spend more money with greater mental comfort knowing that even if they deplete their investment account, they still can access the life insurance's sizable tax-favored cash value[3] and still can leave behind money.

What if everything doesn't go as planned, and this couple accumulated less than $1 million in their retirement account? With the permanent life insurance in place, they still would have significantly greater retirement income. In fact, they could arrive at retirement with only $500,000, literally half the original amount, and still have an equivalent amount of retirement cash flow! Perhaps they weren't able to save as much. Perhaps their investments didn't perform as well. Perhaps life simply didn't go as planned. Whatever the case, because of the strategic positioning of whole life insurance, they still would have enjoyed the same amount of income during retirement[4]. This strategy only is possible with permanent life insurance.

⇒ Key questions to ask:

- How do you plan to access and enjoy wealth during retirement?
- How can you allocate savings to generate greater cash flow during retirement?
- How can you position assets to enable you to generate greater cash flow during retirement?
- How can you repurpose business-owned life insurance for personal benefit?

<u>WEALTH TRANSFER AND REPLACEMENT</u>

In this final phase, life insurance provides a cash infusion – free from both income tax and estate tax, when structured as such – at the precise moment an infusion is most needed. It serves multiple needs. It replaces consumed assets for the surviving spouse, as described in the "enjoying wealth" phase. It provides a legacy to family members or important organizations. It equalizes an estate when multiple children are involved, particularly when some assets are not easily liquidated, like real estate or a family business. And, for the highly affluent, it provides liquidity to pay estate taxes, enabling the estate to be transferred intact. Really, the point is, it's flexible and can be repurposed.

⇒ Key questions to ask:

- What are your legacy objectives?
- How can you replenish depleted assets for a surviving spouse?
- How can you equalize an estate among heirs?
- How can you leave behind a legacy without forcing an asset fire sale?
- How can you satisfy your charitable objectives?

CONCLUSION

During the first phase, life insurance provides for the unlikely, improbable early death by protecting future earning and wealth accumulation. During the second phase, it serves as the master key to unlock the potential of other assets, enabling the depletion of those other assets, given the knowledge of imminent replacement upon the death of the insured. This enables the enjoyment of significantly greater wealth without forcing the difficult choice between spending during retirement and saving to leave as legacy. It enables both. During the third phase, it provides liquidity at the precise moment liquidity is needed. The role of life insurance is often misunderstood – how could positioning it strategically in your clients' lives enable them to have greater financial protection while working, increased cash flow while retired, and more fluid wealth transfer at death?

CITATIONS:

[1] Developed by Dr. Soloman S. Huebner in the 1920s, human life value is a method for calculating life insurance based on an individual's financial value using factors such as age and income levels.

[2] Permanent insurance is represented by a whole life insurance policy that accumulates cash value.

[3] Oshins, Jason. "The Whole Story: The True Rate of Return of Permanent Life Insurance." The Ultimate Estate Planner, 2014.

[4] Using the extreme example of retiring with $500,000 instead of the original $1 million, they have access to nearly 15% more cash flow over a 20-year period or roughly the same over a 25-year period.

ABOUT THE AUTHOR

Jason Oshins is a Financial Advisor with Wealth Strategies Group. He works closely with clients throughout the country to increase wealth during lifetime, improve income during retirement, and provide a greater legacy upon passing, while also protecting their estate from taxes, inflation, and market volatility. He specializes in the areas of estate planning, investments, retirement planning, insurance planning and design, disability protection, long-term care, wealth transfer, and business planning. Jason obtained his MBA from the University of Michigan in Ann Arbor. He can be reached at (702) 735-4355 x218 or at jason.oshins@wealthsg.com.

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