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a business, tax, and financial newsletter

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Permanent Life Insurance: Offering Benefits at Any Age

With life expectancies on the rise, many Americans can expect to live 20 to 30 years in retirement. For many people, the perception of retirement may lead to thoughts of pursuing passions and accomplishing long-standing goals, such as exotic travel or new business pursuits. However, with so many dreams to fulfill and a growing number of retirement years to plan, an early start to retirement planning has never been more crucial. So, regardless of your age, it is important to begin planning today for your future financial independence and that of your loved ones.

As you create your retirement plan, you may find that the inclusion of **permanent life insurance**, also known as **cash value life insurance**, may be beneficial. Permanent life insurance can offer protection to your family during your working years when financial obligations may be greatest. This type of insurance can be valuable in the long term, because the younger you are, the more affordable it may be. In addition, the longer the policy is held, the greater its potential future value may be. Here are some ways in which permanent life insurance may help safeguard your financial outlook in retirement:

1. Lifestyle benefits. Building assets to generate sufficient income is a major concern of many people planning for retirement. As life expectancies increase, your existing assets must support you for an unspecified number of years. Permanent life insurance may help ensure that a surviving spouse will be financially sound with tax-free income from the death benefit provided by the policy. Additionally, couples may choose to access the cash values to supplement retirement income or to pursue a lifelong goal. However, any cash value that is not repaid will reduce the policy's death benefit amount.

2. Burial expenses. End-of-life medical and burial expenses can be significant. Unfortunately, without life insurance coverage or any pre-planning in place, surviving family members may have to pay these expenses from their own assets. The proceeds of a life insurance policy can be used to help cover these expenses.

3. Estate protection. Many people are concerned about the legacies they will leave their heirs. Permanent life insurance can create an instant estate for the named beneficiary. It can also provide funds to help cover the cost of estate taxes. Asset transfers to beneficiaries other than a spouse that exceed the **applicable exclusion amount** ($5.43 million in 2015) may be subject to

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A Vacation Home: The Ultimate Hideaway

Are you dreaming of a mountain cabin or an oceanfront bungalow hideaway? Then you may want to consider that a vacation home can offer some tax savings. Whether you choose to use the home solely for enjoyment or combine business and pleasure by renting the property part-time, it is important to understand the tax laws for a second home.

As long as the combined debt secured by the vacation home and your principal residence does not exceed $1.1 million, you can deduct all of the interest paid on a mortgage used to buy a second home. This advantage is restricted to two homes. Should you purchase a third home, interest on that mortgage is not deductible. However, regardless of how many homes you have, you may be able to deduct all of the property tax paid.

One break enjoyed by homeowners—the right to immediately deduct points paid on a mortgage—applies only to a principal residence. Points paid on a loan for a second home must be deducted gradually, as the mortgage is paid off.

Personal Residence

Your vacation home is considered a personal residence if you rent it for no more than 14 days a year. In such a situation, you may retain the rent tax free without jeopardizing your mortgage interest and tax deductions. However, you may not deduct any rental-related expenses. If you rent out the house on a continual basis, things may become more complicated. Depending on the breakdown between personal and rental use, different rules may apply.

If you buy primarily for pleasure but rent for 15 days or more, the rent you receive is taxable. Because the house is still considered a personal residence, you may deduct all of the interest and property tax. You may also be able to deduct other rental-related expenses, including the cost of utilities, repairs, and insurance attributable to the time the house is rented. In some cases, you may be able to deduct depreciation. When the house is considered a personal residence, rental deductions cannot exceed the amount of rental income you report. In other words, your second home cannot produce a tax loss to shelter other income. In most cases, the interest and taxes assigned to the rental use of the house combined with the operating expenses more than offset rental income, thus limiting your ability to write off depreciation.

Rental Property

Now consider your tax situation if you buy a property primarily as an investment and limit your personal use of the property to 14 days a year (or 10% of the number of rental days, whichever is greater). Because the house is a rental property according to the Internal Revenue Service (IRS), your deductions can exceed the amount you receive in rental income.

If your rental income does not cover the cost of renting the house, you may be able to claim a taxable loss. Rental losses are classified as passive and can be deducted only against passive income, such as that from another rental property that realizes a gain. If you do not have passive income to shelter, the losses have no immediate value; however, unused losses can be used in the future when you have passive income.

There's an exception to this rule, however, that permits taxpayers with adjusted gross income (AGI) under $100,000 ($50,000 if married filing separately) to deduct up to $25,000 ($12,500 if married filing separately) of passive losses against other kinds of income, including salaries. To qualify, you must actively manage the property. The $25,000 allowance is gradually phased out for taxpayers whose AGI is between $100,000 and $150,000.

If your vacation home is considered a rental property, the mortgage interest attributable to the time the premises are rented is a business deduction. The remainder cannot be deducted as home mortgage interest since the house doesn't qualify as a personal residence.

These tax laws also apply to apartments, condominiums, mobile homes, or boats with basic living accommodations. Generally, these are considered rental properties if they include a sleeping space, bathroom, and cooking facilities. If you are considering the purchase of a vacation home, keep in mind that, from a tax perspective, that mountain cabin or oceanfront bungalow may be the ultimate dream home.

permanent life insurance: offering benefits at any age

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substantial estate tax, and insurance policy proceeds may be used to help pay these taxes. With proper preparation, you and your loved ones can help ensure that family heirlooms and property remain in the family and will not have to be sold quickly to pay estate taxes.

How It Works

Provided that policy premiums are paid on time, a permanent life insurance policy can provide coverage for your entire lifetime. In fact, for certain policies, benefits include premiums that may never increase, benefits that never decrease, and a policy that cannot be canceled regardless of changes in your health.

Permanent life insurance policies offer death benefits that are free of income tax, as well as a tax-deferred cash value component. This means that a portion of premium payments to a permanent life insurance policy is used to build cash value, which can be borrowed, often on a tax free basis, for a variety of uses. Retirees may use cash values to help cover educational expenses for younger generations, supplement retirement income, pay for travel, start a new business venture, or even purchase a second home.

It is important to note that distributions of cash value will have an impact on the policy. Distributions under a policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). However, if the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Many permanent life insurance policies also offer non-guaranteed dividend payments, which can be paid when the insuring company's expenses are lower than originally projected. Dividends can be used for a variety of purposes, including as a source of income or as a means to buy additional coverage or to cover existing premium payments.

Permanent life insurance policies may offer a variety of benefits to you and your family throughout your lifetime. In addition to the knowledge that your designated beneficiary(ies) will receive the proceeds of the policy upon your death, you may also have the ability to access the cash values before that time. A permanent life insurance policy can be an important component of an ongoing, long-term financial strategy at any age.

Note: Guarantees are based upon the claims-paying ability of the policy issuer. Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details. ■

Some Things to Consider When Making Regular Charitable Gifts

Sometimes, our desire to give can lead us into making commitments that are difficult to fulfill. Any endeavor worth undertaking, especially one that can benefit others, deserves our careful consideration *before* we take action. Therefore, when contemplating charitable giving, you may want to consider the following points:

- **Choose your causes.** Worthy causes abound and often demand our immediate attention. Choose a limited number of organizations that concentrate on areas that are important to *you*, and then research what kind of help is needed.
- **Budget your gifts.** Include charitable gifts when planning your annual budget. Distributing your donations throughout the year may lessen the impact on your finances and increase the total you may be able to give.
- **Plan your volunteer activities.** Volunteering can be a rewarding experience, especially when you're able to see the fruits of your labor. Carefully determine the time you have available to ensure your best efforts for the cause, and avoid taking on too much.
- **Review your plans.** Just as you review your annual financial budget, look at your annual time/value budget. Revise your

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some things to consider when making regular charitable gifts

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volunteer commitments to include those where the rewards have been the greatest for both you and your cause.

- **Consider a testamentary gift.** If you are fortunate enough to be in a position to increase the amount you donate, or if you are concerned about the future of the organizations you support, consider making a testamentary gift.

Testamentary Gifts

Generally, a testamentary gift is a promise of funds to be given from your estate upon your death. However, using your estate in this way may cause complications. Your intended gift could be reduced if any of the following apply:

- The fair-market value of your assets decreases before your death.
- Unforeseen estate expenses must be met from your assets.
- Your will is contested.

You may be able to protect your gift from estate problems through the establishment of a **trust**. However, the associated legal and administrative costs may have an adverse impact on your gift.

Protection for Your Charitable Gift

Your intentions—and your gift—can be protected from the complications above through the use of **life insurance**. The potential of life insurance may even result in a larger gift than you had originally intended.

The policy can be owned by the charity and removed from your estate, generally protecting your gift from taxation, creditors, and legal contest. It can be purchased and maintained with funds that you contribute to the charity, and as such, your contributions are tax deductible as a charitable gift. As owner of the policy, the charity can decide whether to use your gift to pay the premiums or let the policy lapse. As **beneficiary,** the charity will receive the proceeds of the policy at your death. Depending on the type of policy purchased and the charity's willingness to use your contributions to maintain the policy, these proceeds may be guaranteed and may increase over time. In addition, the proceeds may exceed the amount you would have otherwise given outright during your lifetime or upon your death, depending on the policy type and other factors.

The satisfaction that can come from preparing your charitable gifts ahead of time can be extremely rewarding. When protected with life insurance, your gift could result in the ability to yield more than you ever imagined possible. It may help provide essential funding for your chosen organization, enabling the continuation of its good work.

Be sure to consult a qualified insurance professional to determine the appropriate strategy for your unique circumstances.

All insurance guarantees are based on the financial strength and claims paying ability of the issuing insurance company.