FIVE THINGS TO CONSIDER BEFORE YOU INVEST IN LIFE INSURANCE

Do you really need life insurance?

BY JASON M. O'DELL, MS, CWM AND DAVID B. SNYDER, JD, CLU

In other articles or books, you have undoubtedly read about why you need life insurance. Even more likely, an insurance agent has explained these reasons to you personally. In this article, we will take a contrarian's approach and explain some circumstances in which you don't need life insurance. Before we do so, a brief explanation of the types of life insurance is in order.

TYPES OF LIFE INSURANCE

Life insurance is a contract between the policy owner and a life insurance company, where the policy owner pays a premium and the life insurance provider pays a death benefit to predetermined beneficiaries upon the death of the insured. Term insurance, the most basic life insurance option, simply provides a death benefit with coverage limited by the term of the policy. Typical policies are 10-year and 20-year term. If the policy holder dies during the term, the death benefit is paid to the named beneficiaries. If the policy holder lives longer than the term, the policy expires and there is no return of premiums paid.

Permanent insurance lasts for the policy holder's lifetime (assuming certain conditions are met, such as premium payments) with no expiration date. In addition, permanent coverage features an equity component—a cash accumulation inside the policy that grows tax deferred, can be accessed tax free, and may have some protection from creditors, depending on your state of residence.

During the life of the permanent policy holder, the cash value can be accessed as a lump sum or over a period of years. As the cash value is withdrawn, the policy's death benefit is reduced. Because of this equity component, permanent life insurance (also called "cash value life insurance") is considered a personal asset on the owner's balance sheet.

With both term and permanent life insurance, it is important to note that the death benefit is paid income-tax free to the beneficiaries.

DO YOU ACTUALLY NEED LIFE INSURANCE?

Taking a divergent approach, let's examine some considerations that can help you determine your need (or lack of need) for life insurance—either term or permanent.

1. DEATH BENEFIT PROTECTION. If you will have no financial obligations at your death, have no spouse or dependents that rely on your income now or in the future, or you own no property or business that would need to be purchased at your death by your business partners or liquidated for income needs, then you may not need life insurance.

2. INCOME TAX AND CAPITAL GAINS TAX. As mentioned above, the cash value within a life insurance policy generally grows income tax free and capital gains tax free. You may not need life insurance if you pay little or no income tax or capital gains tax on investments or have losses that will be applied against income or gains for the foreseeable future.

3. ASSET PROTECTION. In many states, the cash value within a life insurance policy is protected at the highest level from lawsuits and creditor claims against the policy owner. If you are not concerned about potential liability from your personal or business activities, you may not need life insurance to protect assets.

4. ASSET DIVERSIFICATION. Cash value within a life insurance policy can grow in a variety of ways—as part of a fixed income portfolio managed by the insurance company (some with guaranteed rates), or as part of a market-based strategy with downside protection, featuring a "floor" that the insurance company guarantees the rate of return will not go below. You may not need life insurance if you are satisfied with the diversification of your investments and incorporation of guaranteed asset classes into your portfolio.

5. ESTATE TAXES AND PLANNING. Life insurance policy death benefits, if owned within a properly structured trust, can be paid to heirs estate-tax free (in addition to income-tax free). If your projected net worth is under the estate-tax exemption amount or you have no children or grandchildren, you may not need life insurance to shield a significant portion of your life savings from the IRS.

LIFE INSURANCE AS PART OF A COMPREHENSIVE FINANCIAL PLAN

As you can see, certain physicians inevitably will not be good candidates for any type of life insurance—term or permanent. Some may have carefully considered the potential benefits outlined in this article and determined that other aspects of their financial planning are sufficient to meet their individual needs. However, in the authors' experience working with more than 1,000 physicians, most have at least one, and often more than one, concern that could be alleviated by the addition of life insurance to a comprehensive financial plan. ■

SPECIAL OFFERS: To receive free hard copies of For Doctors Only: A Guide to Working Less and Building More and Wealth Management Made Simple, please call 877-656-4362. Visit www.ojmbookstore.com and enter promotional code AESMAG03 for a free ebook download of these books for your Kindle or iPad.

Disclosure: OJM Group, LLC. ("OJM") is an SEC registered investment adviser with its principal place of business in the State of Ohio. OJM and its representatives are in compliance with the current notice filing and registration requirements imposed upon registered investment advisers by those states in which OJM maintains clients. OJM may only transact business in those states in which it is registered, or qualifies for an exemption or exclusion from registration requirements. For information pertaining to the registration status of OJM, please contact OJM or refer to the Investment Adviser Public Disclosure web site www.adviserinfo.sec.gov.

For additional information about OJM, including fees and services, send for our disclosure brochure as set forth on Form ADV using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

This article contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized legal or tax advice. There is no guarantee that the views and opinions expressed in this article will be appropriate for your particular circumstances. Tax law changes frequently, accordingly information presented herein is subject to change without notice. You should seek professional tax and legal advice before implementing any strategy discussed herein.

JASON M. O'DELL, MS, CWM AND DAVID B. SNYDER, JD, CLU

■ Jason M. O'Dell, MS, CWM, is a financial consultant and author of more than a dozen books for physicians, including For Doctors Only: A Guide to Working Less and Building More. He is a principal of the financial planning firm OJM Group (www.ojmgroup.com), where David Snyder, JD, CLU® is a financial advisor. They can be reached at 877-656-4362 or odell@ojmgroup.com.