

# THE POWER OF LIFE INSURANCE

## THE IMPACT OF A TAX-FREE DEATH BENEFIT



**Carolyn White**

Age 75

Estate tax rate: 35%

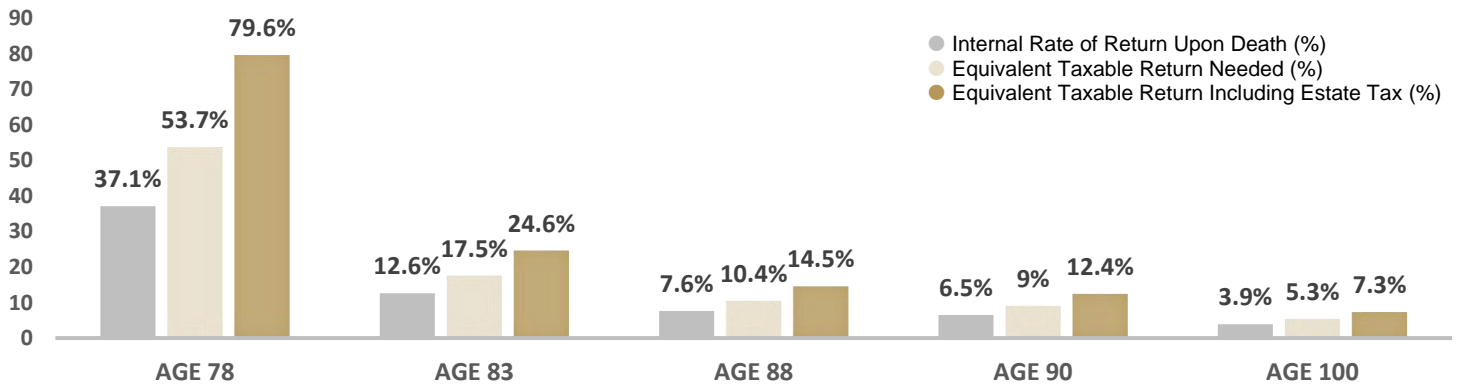
Income tax rate: 40%

Standard, Non-tobacco, 2.5% crediting rate, State of TX

**Due to its unique tax advantages, life insurance offers immediate and long-term leverage as compared to self-insuring with traditional taxable investments.**

- Life insurance proceeds are typically paid income tax-free to the beneficiary.
- Life insurance policies owned by an irrevocable trust may avoid estate taxes.
- To meet the economic value of the life insurance death benefit proceeds, equivalent annual contributions into a taxable investment would require higher yields and possibly greater risk.

### SUMMARY OF RATES OF RETURN



### EXPLANATION OF EXAMPLE

- At age 88 (life expectancy), the internal rate of return of the death benefit is 7.56% (left column).
- However, if a hypothetical investment account was created with the same outlay, but subject to income taxes, that account would have to earn 10.43% annually in order to achieve the same \$10,312,665 net to heirs benefit (center column).
- Furthermore, if that hypothetical investment account was subject to both income and estate taxes, that account would have to earn 14.47% annually in order to achieve the same net to heirs benefit (right column).

| Year | Attained Age | Planned Outlay | Death Benefit* | Internal Rate of Return Upon Death | Equivalent Taxable Return Needed | Equivalent Taxable Return Including Estate Tax |
|------|--------------|----------------|----------------|------------------------------------|----------------------------------|--|
| 1    | 76           | \$5,101,356    | \$10,000,000   | 157.82%                            | 263.03%                          | 479.72%  |
| 2    | 77           | 0              | \$10,000,000   | 60.57%                             | 90.53%                           | 140.77%  |
| 3    | 78           | 0              | \$10,000,000   | 37.12%                             | 53.69%                           | 79.64%   |
| 4    | 79           | 0              | \$10,000,000   | 26.71%                             | 38.03%                           | 55.17%   |
| 5    | 80           | 0              | \$10,000,000   | 20.85%                             | 29.42%                           | 42.12%   |
| 6    | 81           | 0              | \$10,000,000   | 17.10%                             | 23.97%                           | 34.03%   |
| 7    | 82           | 0              | \$10,000,000   | 14.49%                             | 20.22%                           | 28.54%   |
| 8    | 83           | 0              | \$10,000,000   | 12.57%                             | 17.49%                           | 24.57%   |
| 9    | 84           | 0              | \$10,000,000   | 11.10%                             | 15.40%                           | 21.56%   |
| 10   | 85           | 0              | \$10,000,000   | 9.93%                              | 13.76%                           | 19.21%   |
| 3    | 78           | 0              | \$10,000,000   | 37.12%                             | 53.69%                           | 79.64%   |
| 8    | 83           | 0              | \$10,000,000   | 12.57%                             | 17.49%                           | 24.57%   |
| 13   | 88           | 0              | \$10,000,000   | 7.56%                              | 10.43%                           | 14.47%   |
| 15   | 90           | 0              | \$10,000,000   | 6.52%                              | 8.98%                            | 12.43%   |
| 25   | 100          | 0              | \$10,000,000   | 3.86%                              | 5.29%                            | 7.28%  |

\*Guarantees are based upon the claims-paying ability of the issuing insurance company.

\*If premiums are paid as illustrated and on time and no withdrawals and/or loans are taken, the insurance carrier guarantees the benefit will be in force for 25 years.