The Power of Life Insurance

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The Client

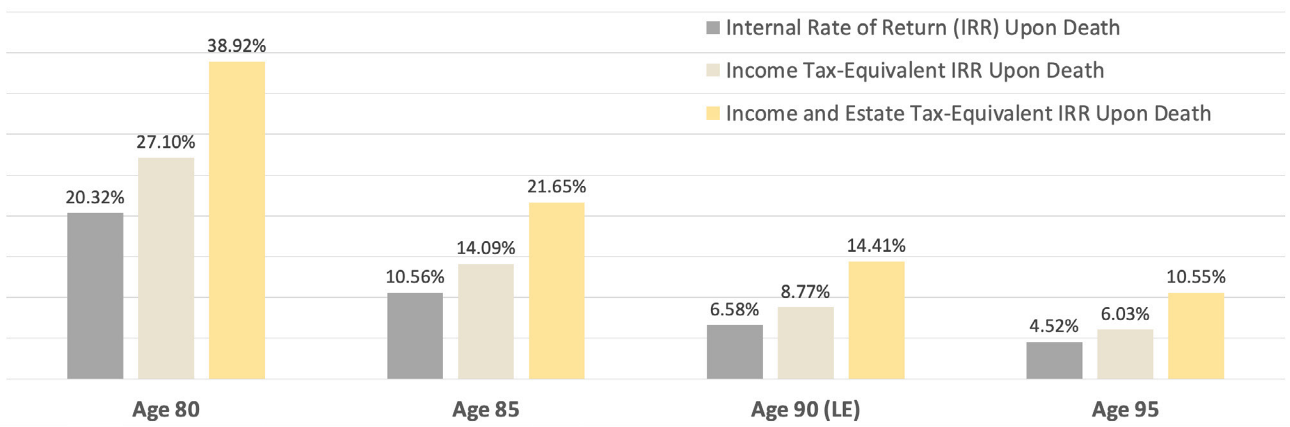
- Age 70, female, and standard plus nonsmoker
- $30MM net worth growing at 2% net of living expenses and taxes
- Average income tax rate of 25%
- $12.06MM lifetime estate and gift tax exemption remaining
- Six available annual gift exclusions ($96,000)
- Inflation rate of 2%.
- Estate tax rate of 40%

Impact of a Tax-Free Death Benefit

Due to its potential tax advantages, life insurance can offer immediate and long-term leverage as compared to self-insuring with traditional taxable investments.

- Death benefit proceeds can be received by the beneficiary free of income tax.
- Death benefit proceeds of policies owned by an irrevocable trust can be received by the beneficiary free of estate tax too.
- To match the economic value of the death benefit, equivalent contributions to a taxable investment may require higher yields before tax and possibly greater risk.

Summary of Rates of Return



Explanation of Example

- At age 90 (life expectancy), the internal rate of return of the death benefit is 6.58% (left IRR column). Assumes maximum expense and mortality assumptions.
- However, if a hypothetical investment account was created with the same outlay, but subject to income taxes at an average rate of 25%, that account would have to earn 8.77% annually in order to achieve the same $10,000,000 after-tax benefit (center IRR column).
- Furthermore, if that hypothetical investment account was subject to both income and estate taxes, that account would have to earn 14.41% annually in order to achieve the same after-tax benefit (right IRR column) taking into account the client assumptions listed above.

Year	Attained Age	Annual Premium	Projected **Death Benefit** with Return of Premium	IRR Upon Death	Income Tax-Equivalent IRR Upon Death	Income and Estate Tax-Equivalent IRR Upon Death
1	71	460,000	10,460,000	2,173.91%	2,898.55%	4,919.81%
3	73	460,000	11,380,000	151.46%	201.95%	275.26%
5	75	460,000	12,300,000	62.31%	83.08%	112.76%
10	80	460,000	14,600,000	20.32%	27.10%	38.92%
15	85	460,000	16,900,000	10.56%	14.09%	21.65%
20 (LE)	90 (LE)	460,000	19,200,000	6.58%	8.77%	14.41%
25	95	460,000	21,500,000	4.52%	6.03%	10.55%
30	100	460,000	23,800,000	3.31%	4.42%	8.21%
35	105	460,000	26,100,000	2.54%	3.38%	6.65%

**Call to receive the full analysis. If premiums are paid on time as illustrated and no other policy transactions or changes occur, the policy would last to age 105 based on non-guaranteed assumptions of a 4.94% credited interest rate and current policy charges; at guaranteed factors, it would last to age 90. Non-guaranteed elements are subject to change at the carrier's discretion and the ability to acquire life insurance requires meeting the carrier's financial and medical under-writing guidelines. Guarantees are based on the financial strength of the insurance company.*

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