Financial Managers

LIFE INSURANCE

PLANNING FOR YOUR FUTURE

PREPARED BY

Jack Brkich III, CERTIFIED FINANCIAL PLANNER™
JMB Financial Managers

Copyright 2022

TABLE OF CONTENTS

The Purpose of Life Insurance 2

Considerations in the Purchase of Life Insurance 4

Basic Types of Life Insurance 5

A Look at Term Life Insurance 6

Cash Value Life Insurance 9

A Look at Whole Life Insurance 12

Variable Life Insurance 15

Universal Life Insurance 18

Variable Universal Life Insurance 21

Indexed Universal Life Insurance 24

Life Insurance Charitable Plan 28

First-To-Die Life Insurance Policies 29

Survivorship Life Insurance 30

The Purpose of Life Insurance

Life Insurance is a unique asset that can be used to solve some of life's perplexing financial problems.

Death Benefits Uses for Life Insurance

- Create an estate: Where time or other circumstances have kept the estate owner from accumulating sufficient assets to care for his or her loved ones, life insurance can create an instant estate.
- Pay death taxes and other estate settlement costs: These costs can vary from a low of three to four percent to over 40 percent of the estate. Federal Estate Taxes are due nine months after death.
- Fund a business transfer: Business owners often agree to buy a deceased owner's share from his or her estate after death. Life insurance provides the ready cash to finance the transaction.
- Pay off a home mortgage: Many people would like to pass the family residence to their spouse or children free of any mortgage. Often a decreasing term policy is used, which decreases in face amounts as the mortgage balance is paid down.
- Protect a business from the loss of a key employee: Key employees are difficult to attract and retain. Their untimely death may cause a severe financial strain on the business.
- Replace a charitable gift: Gifts of appreciated assets to a charitable remainder trust can provide income and estate benefits. Life insurance can be used to replace the value of the donated assets. Proceeds from life insurance policies can also be paid directly to a charity.
- Pay off loans: Personal or business loans can be paid off with insurance proceeds.
- Equalize inheritance: When the family business passes to children who are active in it, life insurance can give an equal amount to the other children.
- Accelerated death benefits: Federal tax law allows a "terminally ill" individual to receive the death benefits of a life insurance policy on his or her life income tax free. Such "living benefits", received prior to death, can allow a person to pay medical bills or other expenses and maintain his or her dignity by not dying destitute. If certain conditions are met, a "chronically ill" person may also receive accelerated death benefits free of federal income tax.[1]

Existing life insurance policies should be reviewed to verify that policy provisions allow for payment of such "accelerated death" benefits.

4 in 10 households with children under 18 say they would immediately have trouble meeting everyday living expenses if the primary wage earner were to die today.

Other Uses for Life Insurance

While life insurance products are primarily used for death benefit protection, they are also used for long-term accumulation goals.

- College fund for children or grandchildren: Cash value increases in a policy on a minor's life (or the parent's life) can be used to fund college expenses.
- Supplement retirement funds: Current insurance products provide competitive returns and are a prudent way of accumulating additional funds for retirement.

Available cash values may also serve as an "emergency reserve," if needed, or a source of loans, since life policies frequently included features permitting borrowing against these cash values.[2]

Considerations in the Purchase of Life Insurance

When purchasing a life insurance policy, there are many factors that you should carefully consider.

Who Will Be the Owner of the Policy?

Life insurance proceeds are included in the estate of a deceased if he or she has any incidents of ownership in the policy. Ownership by adult children or an irrevocable life insurance trust should be considered if there is an estate tax problem.

How Much Life Insurance

This will depend on the need it is fulfilling. Amounts needed to fund a business transfer or to pay death taxes may be readily determined.

Calculating the value of a human life to a family is more difficult. Consider these projected total earnings up to age 65 assuming a 5% annual increase including inflation.

Current Age	Current Monthly Income		
	$2,000	$4,000	$8,000
25	$3,044,154	$6,088,309	$12,176,618
35	$1,674,259	$3,348,518	$6,697,036
45	$833,262	$1,666,524	$3,333,048
55	$316,963	$633,926	$1,267,852

What Type of Policy Should Be Purchased?

There are many different policies that meet a variety of needs.

How Should the Premium Be Paid?

Sometimes the amount of the premium can be paid from current income, while other times it may be prudent to reposition other assets as to be able to acquire sufficient insurance protection.

If the insured is a business owner or executive, a corporation may assist in paying premiums. Other times it may be better to have the corporation own the policy and use the proceeds to purchase part or all of the owner's interest death.

Insurance can also be purchased in certain qualified retirement plans.

Basic Types of Life Insurance

In choosing the type of life insurance policy you purchase, consideration must be given to the need which is being filled, e.g. creation of an estate, payment of estate settlement costs (federal and state death taxes, last illness and burial costs, probate fees, etc.), business buy-out, key-man coverage, etc.

Decreasing Term

Level premium, decreasing coverage, no cash value: Used for financial obligations which reduce with time, e.g. mortgages or other amortized loans.

Annual Renewable Term

Increasing premium, level coverage, no cash value: Used for financial obligations which remain constant for a short or intermediate period, e.g. income during a minor's dependency.

Long-Term Level Premium Term

Level premium, level coverage, no cash value: The annual premiums are fixed for a period of time, typically 5, 10, 15 or 20 years. Used for financial obligations which remain constant for a short or intermediate period, e.g. income during a minor's dependency.

Whole Life

Level premium, level coverage, cash values: Cash value typically increases based on insurance company's general asset account portfolio performance. Used for long-term obligations, e.g. surviving spouse lifetime income needs, estate liquidity, death taxes, funding retirement needs, etc.

Single Premium Whole Life

Entire premium is paid at purchase, cash values, level coverage: Provides protection as well as serving as an asset accumulation vehicle.

Universal Life

Level of adjustable premium and coverage, cash values: Cash values may increase, based on the performance of certain assets held in the company's general account. Used for long-term obligations or sinking-fund needs: estate growth, estate liquidity, death taxes, funding retirement needs, etc.

Variable Life and Variable Universal Life

Level of adjustable premium, level coverage, cash values: Used for long-term obligations, by those individuals who are more active investors, for estate growth, and death tax liability. The death benefit may increase or decrease depending on investment performance. The policy owner directs cash values to a choice of investment accounts (bond, stock, money, market, etc.). However, cash values are not guaranteed.

Note: Withdrawals and loans may be available from permanent policies. Withdrawals and policy loans may reduce the death benefit and will reduce the cash value of the policy. There are different income tax consequences if they are modified endowment contracts.

A Look at Term Life Insurance

Term life insurance, as the name suggest, provides life insurance only for a limited period of time, or term. Other types of policies, such as whole life, universal life, or variable life, are considered to be permanent insurance, and are designed to provide protection for the entire life of the insured.

Term insurance might be compared to an automobile insurance policy. While the auto policy is in force, the insured enjoys protection against loss from an auto accident. If no accident happens, no benefits are paid under the policy. At the end of the period covered by the policy, there is no refund of premiums paid. Term life insurance works in much the same way.

Term insurance thus provides only pure insurance protection and does not have the cash value feature typically found in more permanent life insurance policies. Unlike most permanent policies, in which premiums usually remain level over the life of the policy, the periodic cost of term life insurance increases as the insured becomes older. The cash-value feature found in permanent policies provides a cash build-up within the policy which allows for the level periodic premium. In later years, the premiums for a typical term life policy will far exceed those of the typical permanent policy.

Policy Variations

There are a number of different types of term insurance:

Annual renewable term: Term insurance characterized by a level death benefit, a premium that increases at each annual policy renewal, and no cash-value accumulation.

Long-term level premium term: The annual premiums are fixed for a specified period of time, typically 5, 10, 15, or 20 years. The death benefit remains constant, and there are no accumulated cash values.

Decreasing term: A policy that has a level premium, a decreasing death benefit, and no accumulation of cash values.

Combination policies: In some cases, term life insurance is teamed with a permanent policy to provide the benefits of both types of policies. In both the family income policy, and the family maintenance policy, for example, a term policy with a decreasing death benefit is combined with a permanent, level benefit policy.

Common Uses of Life Term Insurance

Term life insurance is most useful when an insured is relatively young and the need is for temporary or short-term coverage. Some common uses of term insurance include:

- Family protection: To provide the funds to support a surviving spouse and/or minor children or to provide the cash for a child's college education or pay for other capital needs; to pay final bills such as medical or other estate expenses.
- Declining needs: In some instances, a debt, such as a mortgage, is matched with a decreasing term policy. As the debt is paid off, the policy's death benefit is reduced.

- Business planning: A business may use term insurance to insure a key employee, or to recruit or retain key employees through a salary continuation plan. Term insurance is also useful as a way to fund a cross-purchase-buy-sell-agreement, particularly where one owner is significantly younger than another.
- Charitable gifts: To provide funds for a gift to charity.

of consumers say they don't have life insurance because it's too expensive.

[Further investigation found that the average consumer believes the cost of insurance is nearly **3 times** the actual price.]

Optional Policy Provisions

A number of optional policy provisions commonly referred to as riders, can be added to a basic term life policy, generally through payments of an additional premium:

- Renewable: This provision allows the policy to be renewed at the end of the term without the insured having to show that he or she is still insurable.
- Convertible: Provides the insured the option to convert a term policy to a permanent policy, usually without having to prove good health.
- Accidental death: Pays the beneficiaries double (in some situations triple) the face amount of the policy if the insured dies in an accident.
- Waiver of premium: Waives the payment of policy premiums if the insured becomes disabled and unable to work.
- Accelerated death benefits: An accelerated death benefits provision allows for payment of part of a policy's death benefit while an insured is still alive. Such benefits are typically payable when the insured develops a medical condition expected to lead to death within a short period of time.

Return of Premium Life Insurance

Some life insurance companies offer a variation on a base term life insurance policy known as "Return of Premium" or ROP life insurance. A ROP policy guarentees[3] to return to the policy owner the total premiums paid if the insured survives to the end of the term

period. In some cases, this feature is part of the policy and in other cases it is added to a basic term policy through a policy rider.

- Policy premiums: Policy premiums are a fixed, level dollar amount, for the life of the life contract. Premiums for ROP policies tend to be higher than for a term life policy without this feature.
- Policy term: The length of the policy term will vary depending on the insurance company. Typically, ROP policies have a longer term, for example from 15 to 35 years.
- If the owner cancels the policy: If the policy owner cancels or surrenders the policy before the policy term ends, there is typically no refund of the premiums paid.
- If the insured dies: If the insured dies before the end of the policy term, the policy will pay the face amount, less any policy loans, withdrawals, or interest due.
- If the insured lives to the end of the policy term: If the insured lives to the end of the policy term, the policy owner can generally surrender the policy and receive the total amount of premiums paid. In some instances, a term policy will allow the owner to convert the term insurance to a permanent policy.

Cash Value Life Insurance

A cash value life insurance policy, in addition to providing a death benefit, also provides for the tax-deferred accumulation of money inside the policy. These funds can be used by the policy owner while the insured is alive to provide the resources for needs such as funding a college education, making improvements to the home, or starting a business. When the policy owner uses the cash values to meet such needs, he or she is said to have used the "living benefits" of a cash value life insurance policy.

When to Consider Using Cash Value Life Insurance

Using a cash value life insurance policy to reach a savings goal works best in certain situations:

- A need for life insurance death benefit: Apart from the need for additional savings, and individual should have a need for the death benefit that life insurance provides. For example, such a need exists when an individual has a dependent spouse or children who would suffer economically if the individual died. Someone with a large estate might need additional cash at death to pay estate and other taxes as well as final expenses.
- Other savings aren't enough: Because of limitations in federal tax law,[4] other accumulation vehicles might not allow enough money to be put aside to meet a particular savings goal.
- Time frame: Ideally, there should be at least 10 to 15 years between today and the time the money will be needed. Because of mortality expenses and other policy charges, significant cash value accumulations are generally deferred until a policy has been in force for a number of years. Additionally, federal income tax law affects the design of cash value life insurance policies as well as the taxation of cash value withdrawals in the early years a policy is in force.
- Insurable: The insured needs to be healthy enough to have a policy issued on his or her life.
- An ongoing obligation: Cash value life insurance policies tend to have a higher premium cost than comparable term life policies. Paying the premiums over a number of years represents an ongoing financial obligation, to both keep the policy in force and achieve the savings goal.

Income Tax Considerations

There are a number of income tax issues to keep in mind when considering any life insurance policy. The death benefit payable under a life insurance contract because of the death of the insured is generally received income-tax free. Federal income taxation of life insurance "living benefits" is more complicated:

- Tax-deferred growth: The growth of cash value inside a life insurance policy is tax-deferred.

- Cost recovery rule: Amounts withdrawn from a cash-value life insurance contract are included in gross income (and become subject to tax) only when they exceed the policy owner's basis in the policy. This basis is also known as the "investment in the contract." This effectively treats withdrawals from the policy first as a non-taxable return of premium and secondly as taxable income.
- Investment in the contract: The total of all premiums paid less any policy dividends and any other prior tax-free distributions received.
- Policy dividends: Some "participating" life policies pay what are termed "dividends." Such dividends are a return of a portion of the policy owner's previously paid premiums. Policy dividends are not taxable until they exceed the owner's basis in the life insurance contract.
- Policy loans: Some cash value life insurance policies allow the policy owner to borrow at interest a portion of the accumulated cash value. While a policy is in force, policy loans are generally not taxable. However, if a policy is surrendered with a loan outstanding, taxable income will result to the extent that the unpaid loan amount exceeds the owner's basis in the contract.
- Modified Endowment Contracts (MECs): Some life insurance policies – primarily because there are larger premium payments in the early years of the contract – are termed "Modified Endowment Contracts," or MECs. Under federal income tax law, distributions from a policy considered to be a MEC are treated differently than distributions from non-MEC policies. Withdrawals from a MEC (including a policy loan) will first be taxed as current income until all of the policy earnings have been taxed. If the owner is under age 59 ½, a 10% penalty also applies, unless the payments are due to disability or are annuity type payments. Once all policy earnings have been distributed (and taxed), any further withdrawals are treated as non-taxable return of premium.

1 in 3 women believe they don't have enough life insurance.

Accessing the Contract's Cash Values

When the time comes to use the accumulated cash values, withdrawals from the policy should be done in such a way as to avoid current income taxation (to the extent possible) and keep the policy in force.

- Withdrawal to basis: Initially a policy owner can take withdrawals (partial policy surrenders) until he or she has withdrawn an amount equal to the basis in the policy.
- Switching to policy loans: Once the basis has been withdrawn, the policy owner then begins using non-taxable policy loans. The interest payable on these policy loans is typically much less than a loan from a commercial bank or credit union.
- A combination: A policy owner can also use a combination of withdrawals and policy loans.
- Caveats: There are a number of issues that a policy owner needs to keep in mind:
    - Withdrawals reduce the benefit available under the policy.
    - If an insured died with a policy loan outstanding, the policy's death benefit is reduced by the amount of the loan balance.
    - Excessive use of withdrawals and policy loans can result in the policy lapsing. Such a lapse can result in unexpected, negative tax results as well as the loss of a valuable financial asset.

A Multi-Function Tool

Used appropriately, cash value life insurance can serve as a financial tool with multiple uses. It can be used, in conjunction with more traditional saving vehicles, as a way to accumulate funds for long-term savings goals. At the same time the policy can, if the insured dies, provide a death benefit when the funds are the most needed.

A Look at Whole Life Insurance

Whole life insurance, sometimes called permanent insurance, or ordinary life, is designed to stay in force throughout one's lifetime. As long as the policy owner meets his or her obligations under the policy, the policy remains in force, regardless or any changes in health that may occur.

Unlike term insurance, where premium payments generally increase, as the insured gets older (the chance of death increases with age), premiums for most whole life policies remain level. A portion of each premium payment is set aside to earn interest. Over time, a whole life policy will develop cash values. The accumulated cash values form a reserve which enable the insurer to pay a policy's full death benefit, while keeping premiums level.

During life, many whole life policies have provisions to borrow a portion of the accumulated cash value. If a policy is terminated without the insured dying, there are various surrender options for the cash value available to a policy owner.

Policy Variations

There are two primary types of whole life insurance, based on the period over which the premium payments are made:

Ordinary life: An ordinary life policy assumes that premiums will be paid until the insured dies. Premiums are based on the assumption that the insured will die at a certain age, typically age 100. If an insured lived to this age, the policy pays the face amount of the death benefit.

Limited-payment life: This type of whole life policy assumes that all premium payments are made over a specified, limited period, typically ranging from one to 30 years. Premiums for a limited-payment life policy are generally higher than for an ordinary life policy, because the payment period is shorter.

Common Uses for Whole Life Insurance

Whole life policies are well suited for needs that do not diminish over time. Some commonly found uses for whole life are:

- Family protection: to provide funds to support a surviving spouse and/or minor children, particularly for individuals who start a family later in life; to pay final bills, such as medical or other estate expenses and federal and state death taxes.
- Business planning: Whole life insurance is often used for many different business purposes, such as insuring key employees, in split-dollar insurance arrangements, and funding non-qualified deferred compensation plans. Business continuation planning often involved using whole life insurance as a source of fund for buy-sell agreements.
- Accumulation needs: Some individuals will use the cash value feature of whole life as a way of accumulating funds for specific purposes, such as funding college education, or as a supplemental source of retirement income.
- Charitable gifts: To provide funds for a gift to charity

Modified Endowment Contracts (MECs)

A life insurance policy issued on or after June 21, 1988[5] may be classified as a modified endowment contract (MEC) if the cumulative premiums paid during the first seven years (7-pay test) at any time exceed the total of the net level premiums for the same period.

If a policy is classified as a MEC, all withdrawals (including loans) will be taxed as current income, until all of the policy earning have been taxed. There is an additional 10% penalty tax if the owner is under age 59 ½ at the time of withdrawal, unless the payments are due to disability or are annuity type payments.

A whole life policy can avoid treatment as a MEC through a well-designed premium payment schedule.

Additional Policy Elements

Whole life policies often have additional useful features:

- Policy loans: Almost all whole policies permit the policy owner to borrow a portion of the accumulated cash value, with the insurance company charging interest on the loan. The rate charged to borrow the funds is often lower than current open market rates. A policy loan will reduce the death benefit payable if the insured dies before the loan and any interest due is repaid. A policy loan will also reduce the cash surrender value if a policy is terminated. If a policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income for the current year, to the extent of gain in the policy.
- Policy dividends: Whole life contracts classified as "participating" offer the possibility of policy "dividends." Such policy dividends are not guaranteed, and represent a return to the policy owner of part of the premium paid. A dividend may be taken as cash or a policy may offer a number of other ways the dividend might be used:
    - To reduce current premium payments;
    - To buy additional, completely paid-up insurance (known as paid-up additions);

- To be retained by the insurer, earning interest for the policyholder;
- To purchase one-year term insurance;
- To be added to the policy's cash value;
- To "pay up" the policy earlier than originally scheduled.

Policy Dividends Used to Purchase Paid-Up Additions

Although policy dividends are not guaranteed, using available dividends to purchase paid-up additions can, over time, have a significant, positive impact on both the death benefit and cash value of whole life policy.

Optional Policy Provisions

A number of optional provisions, commonly referred to as riders, can be added to basic whole life policy, generally through payments of an additional premium:

- Waiver of premium: Waives the payment of policy premiums if the insured becomes disabled and unable to work.
- Accidental death: Pays the beneficiaries double (in some situations triple) the face amount of the policy if the insured dies in an accident.
- Spousal or family term insurance: Allows a policy owner to purchase term insurance on a spouse or children.
- Accelerated death benefits: An accelerated death benefits provision allows for payment of apart of a policy's death benefit while an insured is still alive. Such benefits are typically payable when the insured develops a medical condition expected to lead to death within a short period of time.

Variable Life Insurance

Variable life insurance is similar to whole life in that the premium payments are level, and there is generally a minimum guaranteed death benefit. Unlike whole life policies however, variable life insurance permits the policy owner to allocate a portion of each premium payment to one or more investment options, in separate sub-accounts after a deduction for expense and mortality charges.

The death benefit and cash value of a variable life policy will increase or decrease based on the performance of the investment options chosen. The death benefit, however, will not drop below an initial guaranteed amount, unless policy premiums are not paid or if loans or other withdrawals are taken from the policy. The ultimate death benefit is subject to the claims paying ability of the insurer.

Because the investment options available inside a variable life policy usually involve securities (e.g., stocks and bonds), the Securities and Exchange Commissions (SEC) requires this type of policy to be accompanied by a prospectus. The prospectus provides detailed information on how the policy works, its risks, and all expenses or charges involved. The SEC also requires individuals selling variable life policies to be licensed to sell securities.

Policy Variations

There are two primary variations of variable life insurance, based on the formula used to link the amount of death benefit to the performance of the investments chosen by the policy owner. In general, if investment performance is positive, the amount of the death benefit increases; if investment performance is negative, the death benefit amount will decrease.

- Corridor percentage: Under this method, also known as the constant ratio method, the amount of the death benefit is periodically changed to equal a certain percentage of the cash value. Under current tax law, this percentage is 250% up to the insured's age 40, gradually decreasing to 100%, usually at age 95.
- Level additions: Also known as the net single premium approach, this method uses excess investment earnings to purchase an additional amount of single premium, paid-up insurance.

Common Uses of Variable Life

Variable life policies are well suited for use by policy owners who are comfortable with the risks and rewards of investments, and who need life insurance with the potential to provide an increasing death benefit. Some common uses are:

- Supplement existing family protection: As a supplement to an existing, basic life insurance plan. If the market is down when an insured dies, the variable death benefit of a variable life policy may not provide adequate funds to support a surviving spouse and/or minor children, or to pay final estate expenses.
- Business planning: Variable life insurance is often used for many different business purposes, such as insuring key employees, in split-dollar insurance

arrangements, and funding non-qualified deferred compensation plans. Business continuation planning often involves using variable life insurance as a source of retirement income.

- Charitable gifts: To provide funds for a gift to charity.

3 in 5 people own some type of life insurance

34% report a likelihood of making a life insurance purchase within the coming year

Modified Endowment Contracts (MECs)

A life insurance policy issued on or after June 21, 1988[5] may be classified as a modified endowment contract (MEC) if the cumulative premiums paid during the first seven years (7-pay test) at any time exceed the total of the net level premiums for the same period. If a policy is classified as a MEC, all withdrawals (including loans) will be taxed as current income, until all of the policy earnings have been taxed. There is an additional 10% penalty tax is the owner is under age 59 ½ at the time of withdrawal, unless the payments are due to disability or are annuity type payments.

A variable life policy can avoid treatment as a MEC through a well-designed premium payment schedule.

Additional Policy Elements

Variable life policies have a number of additional elements to consider:

- Investment options: Most variable life policies offer a policy owner a wide range of investment options, including basic stock, bond and money market funds. Depending on the policy and insurer, other options, such as index funds, real estate funds, foreign stock funds, or zero coupon bond funds may also be offered. A policy may also include a fixed account option, in which the insurer guarantees a fixed rate of return.
- Portfolio changes: Many variable life policies allow a policy owner to change their investment allocation at lease once a year (sometimes more frequently), usually at no charge.

- Policy loans: Almost all variable life policies permit the policy owner to borrow a portion of the accumulated cash value, with the insurance company charging interest on the loan. The rate charged to borrow the funds is often lower than current open market rates. A policy loan will reduce the death benefit payable if the insured dies before the loan and any interest due is repaid. A policy loan will also reduce the cash surrender value if a policy is terminated. If a policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income in the current year, to the extent of gain in policy.
- Partial withdrawals: Many variable life policies allow a policy owner to withdraw a portion of the cash value, without terminating the policy. Withdrawals may be subject to certain restrictions and/or withdrawal charges. Such withdrawals reduce the amount of death benefit payable, and may be subject to current income tax, if the policy is classified as a MEC, or if the withdrawal exceeds cost basis for a policy not classified as a MEC.
- Policy dividends: Variable life policies classified as participating offer the possibility of policy dividends. Dividends from a participating variable life policy are not guaranteed, and represent a return to the policy owner of a portion of the premium paid. Most participating policies offer a number of options as to how the dividends may be used.
- Surrender charges: Most variable life policies have substantial surrender charges, if a policy is terminated. These surrender charges are generally highest in the early years of a policy, and decline over a period of time, usually from seven to 15 years.
- Surrender options: If a policy owner surrenders a policy, there are generally three ways in which the accumulated cash value may be received, including: (1) taking the accumulated cash value, less any surrender charges; (2) receiving a reduced amount of paid-up insurance; or (3) taking paid-up term insurance in an amount equal to the original face amount of the policy.

Optional Policy Provisions

A number of optional provisions, commonly referred to as riders, can be added to a variable life policy, generally through payment of an additional premium.

- Waiver of premium: Waives the payment of policy premiums if the insured becomes disabled and unable to work.
- Accidental death: Pays the beneficiaries double (in some situations triple) the face amount of the policy if the insured dies in an accident.
- Spousal of family term insurance: Allows a policy owner to purchase term insurance on a spouse or children.
- Accelerated death benefits: An accelerated death benefit provision allows for payment of a part of a policy's death benefit while an insured is still alive. Such benefits are typically payable when the insured develops a medical condition expected to lead to death within a short period of time.

Universal Life Insurance

Universal life insurance contracts differ from traditional whole life policies by specifically separating and identifying the mortality, expense, and cash value parts of the policy. Dividing the policy into these three components allows the insurance company to build a higher degree of flexibility into the contract. This flexibility allows (within certain limits) the policy owner to modify the policy face amount or premium, in response to changing needs and circumstances.

A monthly charge for both the mortality element and the expense element is deducted from a policy's account balance. The remainder of the premium is allocated to the cash value element, where the funds earn interest. Unlike traditional whole life policies, complete disclosure of these internal charges against the cash value element is made to the policy owner in the form of an annual statement.

Many universal life policies have several different provisions by which the accumulated cash value can be made available to a policy owner during life, without causing the policy to lapse. If a policy is terminated without the insured dying, there are various surrender options for the cash value.

Policy Variations

There are two primary types of universal life, based on the level of death benefits.

Type I universal life: Also known as option A, type I universal policies pay a fixed, level death benefit, generally the face amount of the policy.

Type II universal life: Also known as option B, type II universal policies generally pay the face amount of the policy plus the accumulated cash values. As the cash values grow, so does the potential death benefit.

Common Uses of Universal Life

Universal life policies are useful for policy owners who expect their needs to change over time. Within certain guidelines, a universal life policy can be modified by changing the death benefit or premium payments. Some common uses are:

- Family protection: To provide the funds to support a surviving spouse and/or minor children, or to pay final bills such as medical or other estate expenses, as well as federal and state death taxes.
- Business planning: Because of its flexibility, universal life insurance is often used for many different business purposes, such as insuring key employees, in split-dollar insurance arrangements, and funding nonqualified deferred compensation plans. Business continuation planning often involves using universal life as a source of funds for buy-sell agreements.
- Accumulation needs: Some individuals will use the cash value feature of universal life as means of accumulating funds for specific purposes, such as funding college education, or as a supplemental source of retirement income.
- Charitable gifts: To provide funds for a gift to charity.

Modified Endowment Contracts (MECs)

A life insurance policy issued on or after June 21, 1988[5] may be classified as a modified endowment contract (MEC) if the cumulative premiums paid during the first seven years (7-pay test) at any time exceed the total of the net level premiums for the same period.

If a policy is classified as a MEC, all withdrawals (including loans) will be taxed as current income, until all of the policy earnings have been taxed. There is an additional 10% penalty tax if the owner is under age 59 ½ at the time of withdrawal, unless the payments are due to disability or are annuity type payments.

A universal life policy can avoid treatment as a MEC through a well-designed premium payment schedule. Caution must be exercised when changes in policy premium payments or death benefits are made, or when making partial withdrawals, to avoid having the policy inadvertently classified as a MEC.

4 in 10 insured husbands and wives have only group life insurance coverage.

Additional Policy Elements

Universal life policies have a number of additional elements to consider:

- Surrender charges: Most universal life policies have substantial surrender charges, if a policy is terminated. These surrender charges are generally highest in the early years of a policy, and decline over a period of time, usually from seven to 15 years.
- Policy loans: Universal life policies typically permit the policy owner to borrow at interest a portion of the accumulated cash value. The rate charged on the borrows funds is often lower than current open market rates. A policy loan will reduce the death benefit payable if the insured dies before the loan is repaid; a policy loan will also reduce the cash surrender value if a policy is terminated. If the policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income in the current year, to the extent of gain in the policy.

- Partial withdrawals: Most universal life policies allow a policy owner to withdraw a portion of the cash value, without terminating the policy. Such withdrawals reduce the amount of death benefit payable, and may be subject to current income tax, if the policy is classified as a MEC, or if the withdrawal exceeds costs basis for a non-MEC policy. Some contracts allow a policy owner to put the withdrawn funds back into the policy, but the insured may have to provide evidence of insurability to restore the original death benefit.
- Surrender options: If a policy owner surrenders a policy, there are generally three ways in which the accumulated cash value may be received, including: (1) taking the accumulated cash value, less any surrender charges; (2) receiving a reduced amount of paid-up insurance; or (3) taking paid-up term insurance in an amount equal to the original face amount of the policy.

Optional Policy Provisions

A number of optional provisions, commonly referred to as riders, can be added to a basic universal life policy, generally through payment of an additional premium:

- Waiver of premium: Suspends the monthly deduction for the mortality element of the policy, if the insured becomes disabled and is unable to work.
- Accidental death: Pays the beneficiaries double (in some situations triple) the face amount of the policy if the insured dies in an accident.
- Spousal or family term insurance: Allows a policy owner to purchase term insurance on a spouse or children.
- Accelerated death benefits: An accelerated death benefits provision allows for payment of part of a policy's death benefit while an insured is still alive. Such benefits are typically payable when the insured develops a medical condition expected to lead to death within a short period of time.

Variable Universal Life Insurance

A variable universal life insurance policy combines features found in both universal life policies and variable life policies.

As with a variable life policy, a variable universal contract permits a policy owner to allocate a portion of each premium payment to one or more investment options, in separate accounts, after a deduction for expenses and mortality charges. An annual statement detailing the expenses, charges, and credits allows a policy owner to track performance over time.

Following universal life policies, a variable universal contract permits the owner of a policy, within certain guidelines, to modify the policy death benefit, and change the amount and timing of premium payments, to meet changing circumstances. The ultimate death benefit is subject to the claims paying ability of the insurer.

Because the investment options available inside a variable universal life policy usually involve securities (e.g. stocks and bonds), the Securities and Exchange Commissions (SEC) requires this type of policy to be accompanied by a prospectus. The prospectus provides detailed information on how the policy works, its risks, and all expenses or changes involved. The SEC also requires individuals selling variable universal life policies to be licensed to sell securities.

Policy Variations

There are two primary types of variable universal life, based on the level of death benefits:

Type I variable universal life: Also known as option A, type I variable universal policies pay a fixed, level death benefit, generally the face amount of the policy.

Type II variable universal life: Also known as option B, type II variable universal policies generally pay the face amount of the policy plus the accumulated cash values. As the cash values grow, so does the potential death benefit.

Common Uses of Variable Universal Life

Variable universal life policies are useful for policy owners who expect their needs to change over time. Within certain guidelines, the policy can be modified by changing the death benefit or premium payments. They are also well suited for use by policy owners who are comfortable with the risks and rewards of investments, or who need life insurance with the potential to provide an increasing death benefit. Some commons uses are:

- Supplement existing family protection: As a supplement to an existing, basic life insurance plan. If the market is down when an insured dies, the variable death benefit of a variable universal life policy may not provide adequate funds to support a surviving spouse and/or minor children, or to pay final estate expenses.
- Business planning: Because of its flexibility, variable universal life insurance is often used for many different business purposes, such as insuring key employees, in split-dollar insurance arrangements, and funding non-qualified deferred

compensation plans. Business continuation planning often involves using variable universal life as a source of funds for buy-sell agreements.

- Accumulation needs: Some individuals will use the investment features of variable universal life as means of accumulating funds for specific purposes, such as funding college education, or as a supplemental source of retirement income.
- Charitable gifts: To provide funds for a gift to charity.

Modified Endowment Contracts (MECs)

A life insurance policy issued on or after June 21, 1988[5] may be classified as a modified endowment contract if the cumulative premiums paid during the first seven years (7-pay test) at any time exceed the total of the net level premiums for the same period.

If a policy is classified as a MEC, all withdrawals (including loans) will be taxed as current income, until all of the policy earnings have been taxed. There is an additional 10% penalty tax if the owner is under age 59 ½ at the time of withdrawal, unless the payments are due to disability or are annuity type payments.

A variable universal life policy can avoid treatment as a MEC through a well-designed premium payment schedule. Caution must be exercised when changes in a policy premium payments or death benefits are made, or when making partial withdrawals, to avoid having the policy inadvertently classified as a MEC.

Additional Policy Elements

Variable universal life policies have a number of additional elements to consider:

- Investment options: Most variable universal life policies offer a policy owner a wide range of investment options, including basic stock, bond and money market funds. Depending on the policy and insurer, other options, such as index funds, real estate funds, foreign stock funds, or zero coupon bond funds may also be offered. A policy may also include a fixed account option, in which the insurer guarantees a fixed rate of return.
- Surrender charges: Most variable universal life policies have substantial surrender charges, if a policy is terminated. These surrender charges are generally highest in the early years of a policy, and decline over a period of time, usually from seven to 15 years.
- Policy loans: Variable universal life policies typically permit the policy owner to borrow at interest a portion of the accumulated cash value. The rate charged on the borrowed funds is often lower than current open market rates. A policy loan will reduce the death benefit payable if the insured dies before the loan is repaid; a policy loan will also reduce the cash surrender value if a policy is terminated. If a policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income in the current year, to the extent of gain in the policy.
- Partial withdrawals: Most variable universal life policies allow a policy owner to withdraw a portion of the cash value, without terminating the policy. Such withdrawals reduce the amount of death benefit payable, and may be subject to

current income tax, if the policy is classified as a MEC, or if the withdrawal exceeds cost basis for a non-MEC policy. Some contracts allow a policy owner to put the withdrawn funds back into the policy, but the insured may have to provide evidence of insurability to restore the original death benefit.

- Surrender options: If a policy owner surrenders a policy, there are generally three ways in which the accumulated cash value may be received, including: (1) taking the accumulated cash value, less any surrender charges; (2) receiving a reduced amount of paid-up insurance, or (3) taking paid-up term insurance in an amount equal to the original face amount of the policy.

$400

What most Americans believe a 20-year, $250,000 level term life policy for a healthy 30-year-old costs annually.

VS.

$150

What it would actually cost for a policy.

Optional Policy Provisions

A number of optional provisions, commonly referred to as riders, can be added to a basic variable universal life policy, generally through payment of an additional premium:

- Waiver of premium: Suspends the monthly deduction for the protection element of the policy, if the insured becomes disabled and is unable to work.
- Accidental death: Pays the beneficiaries double (in some situations triple) the face amount of the policy if the insured dies in an accident.
- Spousal or family term insurance: Allows a policy owner to purchase term insurance on a spouse or children.
- Accelerated death benefit: An accelerated death benefit provision allows for payment of part of a policy's death benefit while an insured is still alive. Such benefits are typically payable when the insured develops a medical condition expected to lead to death with a short period of time.

Indexed Universal Life Insurance

Indexed universal life insurance (IUL) is a type of universal life insurance policy; it differs from a standard universal life contract in the mechanism used to credit interest to the cash value portion of the policy.

Structure of a Universal Life Policy

Unlike traditional whole life insurance, universal life policies are specifically separate and identify the mortality, expense, and cash value elements of the contract. Dividing a policy into these three components allows the insurance company to build a higher degree of flexibility into the contract. Within certain limits, this flexibility allows the policy owner to modify the policy face amount[6] or premium, in response to changing needs and circumstances.

A monthly charge for both the mortality element and the expense element is deducted from a policy's account balance. The remainder of the premium is allocated to the cash value element where the funds earn interest. Complete disclosure of these internal charges against the cash value element is made to the policy owner in the form of an annual statement.

Universal life policies typically have several different provisions by which the accumulated cash value can be made available to a policy owner during life, without causing the policy to lapse. If a policy is terminated without the insured dying, there are various surrender options for the cash value.

Index Feature

In a standard universal life policy, interest is credited to the cash value portion of the policy by a method determined by the life insurance company, with most policies having a guaranteed minimum interest rate.

With an IUL policy, cash value is generally credited with a return that is greater of the guaranteed minimum rate of the return based on a formula related to a specific market index, such as the Standard and Poor's 500 index. If the underlying index rises sufficiently during a specific period, a great return is credited to the cash value portion of the contract for that period. If the underlying index does not rise sufficiently, or even declines, the lower minimum rate is generally credited. IUL policies thus provide a way to share in gains in the underlying index, while being sheltered from index declines.

How an Index Works

Although all IUL policies share the same objective, contracts can vary greatly in their specifics. A clear understanding of the index mechanisms is helpful:

- Participation rates: Also known as the "index rate," the "participation rate" specified the percentage increase in the index by which a contract will grow. For example, "75% of the S&P 500's increase for the calendar year" means that is the S&P 500 index increases 10% for the year, the contract would be credited with 7.5%. In some cases, this rate is subject to change by the insurance company.

- Cap rate: The annual maximum percentage increase allowed. For example, if the chosen market index increases 15%, a contract with a 9.0% cap rate will limit the client's increase to 9.0%. Depending on the policy, there may be no cap rate, or the cap rate may be subject to change by the insurance company.
- Measuring the index change: There are three primary formulas used to measure the changing in an index inside of an IUL:
    - Daily averaging: Typically done over a one-year term, this approach compares the index value at the beginning of the term, with the daily average index value over the entire term period.
    - Monthly averaging: Again, typically measured over a one-year period, the monthly averaging formula compares the index value at the beginning of the term, with the index value measured on the same day each month.
    - Point-to-Point: Compares the index value on the first day of the term (often one year) with the value on the last day of the term; any market changes in between are ignored.

Policy Variations

There are two primary types of indexed universal life, based on the level of death benefits.

Type I indexed universal life: Also known as option A, type I IUL policies pay a fixed, level death benefit, generally the face amount of the policy.

Type II indexed universal life: Also known as option B, type II IUL policies generally pay the face amount of the policy plus the accumulated cash values. As the cash values grow, so does the potential death benefit.

Common Uses of Indexed Universal Life

IUL policies are useful for policy owners who expect their needs to change over time. Within certain guidelines, an IUL policy can be modified by changing the death benefit or premium payments. Some common uses are:

- Family protection: To provide the funds to support a surviving spouse and/or minor children, or to pay final bills such as medical or other estate expenses, as well as federal and state death taxes.
- Business planning: Because of its flexibility, indexed universal life insurance is often used for many different business purposes, such as insuring key employees, in split-dollar insurance arrangements, and funding nonqualified deferred compensation plans. Business continuation planning often involves IUL as a source of funds for buy-sell agreements.
- Accumulation needs: Some individuals will use the cash value feature of IUL as means of accumulating funds for specific purposes, such as funding college education, or as a supplemental source of retirement income.
- Charitable gifts: To provide the funds for a gift to charity.

Modified Endowment Contracts (MECs)

A life insurance policy issued on or after June 21, 1988[5] may be classified as a modified endowment contract (MEC) if the cumulative premiums paid during the first seven years (7-pay test) at any time exceed the total of the net level premiums for the same period.

If a policy is classified as a MEC, all withdrawals (including loans) will be taxed as current income, until all of the policy earnings have been taxed. There is an additional 10% penalty tax if the owner is under age 59 ½ at the time of withdrawal, unless the payments are due to disability or are annuity type payments.

An IUL policy can avoid treatment as a MEC through a well-designed premium payment schedule. Caution must be exercised when changes in policy premium payments or death benefits are made, or when making partial withdrawals, to avoid having the policy inadvertently classified as a MEC.

[$15.3 trillion
The estimated amount of unmet life insurance needs in the United States]

Additional Policy Elements

Indexed universal life policies have a number of additional elements to consider:

- Surrender charges: Most IUL policies have substantial surrender charges, if a policy is terminated. These surrender charges are generally highest in the early years of a policy, and decline over a period of time, usually from seven to 15 years.
- Policy loans: IUL policies typically permit the policy owner to borrow at interest a portion of the accumulated cash value, the rate charged on the borrowed funds is often lower than current open market rates. A policy loan will reduce the death benefit payable if the insured dies before the loan is repaid; a policy loan will also reduce the cash surrender value if a policy is terminated. If the policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income in the current year, to the extent of gain in the policy.

- Partial withdrawals: Most IUL policies allow a policy owner to withdraw a portion of the cash value, without terminating the policy. Such withdrawals reduce the amount of death benefit payable, and may be subject to current income tax, if the policy is classified as a MEC, or if the withdrawal exceeds costs basis for a non-MEC policy. Some contracts allow a policy owner to put the withdrawn funds back into the policy, but the insured may have to provide evidence of insurability to restore the original death benefit.
- Surrender options: If a policy owner surrenders a policy, there are generally three ways in which the accumulated cash value may be received, including: (1) taking the accumulated cash value, less any surrender charges; (2) receiving a reduced amount of paid-up insurance; or (3) taking paid-up term insurance in an amount equal to the original face amount of the policy.

Optional Policy Provisions

A number of optional policy provisions, usually referred to as riders, can be added to a basic index universal life policy, generally through payments of an additional premium. Not all riders are available from all insurance companies.

- Waiver of premium: Suspends the monthly deduction for the mortality element of the policy, if the insured becomes disabled and is unable to work.
- Accidental death: Pays the beneficiaries double (in some situations triple) the face amount of the policy if the insured dies in an accident.
- Spousal or family term insurance: Allows a policy owner to purchase, at the time the IUL policy is issued, term insurance on a spouse or children.
- Accelerated death benefits: An accelerated death benefits provision allows for payment of part of a policy's death benefit while an insured is still alive. Such benefits are typically payable when the insured develops a medical condition expected to lead to death within a short period of time.
- Guaranteed income benefit (GIB): If a contract owner chooses to borrow from a policy's accumulated cash value, a GIB rider assures that there will always be funds available to borrow, no matter how long the owner lives.
- Long-term care: Helps pay for long-term care expenses, should the insured require such care.

Life Insurance Charitable Plan

For the individual who would like to make a substantial bequest to his or her favorite charity, but does not have sufficient assets to fulfill this desire, a charitable plan consisting of a life policy should be considered.

The policy owner (typically, the insured) can transfer an existing life insurance policy to the charity or contribute the funds necessary to purchase a new policy. Additional tax-deductible contributions can be made to help the charity pay the annual premium. This not only spreads out the amount to be given, but allows one to experience the feeling that comes from sharing with others on a more frequent basis.

If circumstances change, the insured can discontinue making the gifts and the charity will either continue the payments or surrender the policy for the cash values.

Note: Merely naming a charity as a beneficiary of a policy will not produce an income tax deduction, since the owner (insured) still has the power to surrender the policy.

The income tax deduction is limited to the lesser of:

- Donor's cost basis (premiums paid less dividends received in cash and policy loans outstanding) or
- The policy's value, which varies with types of policy.
    - Ordinary life: The interpolated terminal resolve (roughly cash value) plus any pre-paid premium.
    - Paid-up policy: Present cost of a comparable policy at the donor's current age.
    - New policy: The gross premium just paid.
    - Term insurance: The portion of premium that is still unearned by the insurer.

First to Die Life Insurance Policies

As the name implies, the first-to-die or joint-life insurance policies pay out the face amount when the first named insured dies. This reduces the cost of paying premiums on two separate policies, when the insurance proceeds are most needed when only the first insured dies.

The following examples illustrate how this type of policy can be effectively used.

Buy-Sell Funding

A corporation or partnership with two or more owners often experience problems of transferring ownership to the surviving owner or owners and paying a fair cash price to the deceased owner's heirs.

This problem is usually remedied with a properly structured buy-sell agreement, which assures a fair price for the decedent's share of the business and allows the surviving business partner to retain control and ownership of the business.

Life insurance is well established as the ideal method of funding buy-sell agreements. By using a joint-life policy, the company may be able to reduce the amount of cash flow required to pay the premiums, while still guaranteeing that the funds will be available for the buy-out no matter which partner or shareholder dies first.[8]

{85% of consumers agree that most people need life insurance, yet only 62% say they actually have life insurance.}

Key Person Protection

The loss of a key employee or executive can have a devastating effect on the future of a business. The use of joint-life policies can reduce the required cash flow to insure against the loss of any one person from a selected group of key persons. Insurance proceeds can be used to find, recruit, and train replacement employees and sustain or strengthen the company's credit position.

Survivorship Life Insurance (Second to Die)

The Problem-Deferred Estate Tax Buildup

For married couples, current federal estate tax law[1] allows postponement of estate taxes – through the "unlimited marital deduction" – until the death of the second spouse to die. While this provides couples with increased flexibility during lifetime, it can sometimes place a substantial tax burden on the combined estate when the surviving spouse dies.

The Survivorship Life Solution

Unlike traditional life insurance, which provides protection on the life of a single insured, survivorship life covers two lives, with the proceeds payable at the second death. As such, it is suited to deal with the problem discussed above.

Advantages Over Individual Coverage

- Lower Premiums: can be more cost effective than two policies
- Medical underwriting standards may be eased with respect to one of the insureds due to second death payouts.

Ownership Arrangements

Third party ownership (adult children or an irrevocable life insurance trust) is often desirable for persons with potential estate tax problems. The policy may sometimes be transferred out of the estate after the first insured dies. If the survivor lives three years after the gift, the full face amount should generally be out of his or her estate. Questions of ownership should be discussed with an attorney.

Other Uses for Survivorship Life

- Key person insurance: Useful when the employer can self-insure or absorb the loss of one key individual but not two.
- Business buyout: Facilitates purchase of family business from aging parents. Child working in the business owns the policy on parents.
- Charitable gift asset replacement: Provides heirs with replacement cash when assets are used to fund a charitable remainder trust.

Contact Us

Reach out to us today to schedule a ***complimentary*** consultation to discuss your life insurance options.

In your complimentary consultation you will:

- Learn about life insurance options that fit your specific needs,
- Discuss any questions you may have concerning life insurance, and
- Receive a complimentary life insurance quote.

By the end of your consultation you will be able to get started preparing for your future with a life insurance policy to fit your situation.

Get started today to provide financial security for tomorrow.

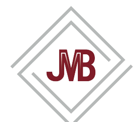
Give me a call at (949) 251-3544 or reach me by email at jack.brkich@ceteraadvisors.com

Jack Brkich III, Certified Financial Planner ™ | JMB Financial Managers, Inc.

43 Corporate Park, Suite 104 Irvine, CA 92606 | (949) 251.3544

Find Us Online:
jmbfinmgrs.com | Blog | LinkedIn | Twitter | Facebook | Investopedia

Securities and Advisory Services through Cetera Advisors LLC, member FINRA, SIPC, a broker/dealer and a Registered Investment Advisor. Cetera is under separate ownership from any other entity.



Financial Managers

Footnotes

1 – The discussion here concerns federal income tax law; state or local tax law may vary.

2 – A policy loan or withdrawal will generally reduce cash values and death benefits. If a policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income in the current year, to the extend of gain in the policy. Policies considered to be modified endowment contracts (MECs) are subject to special rules.

3 – Guarantees are based on the claims-paying ability of the life insurance company issuing the policy.

4 – The discussion here concerns federal income tax law. State of local tax law may vary widely.

5 – Including a policy issued before that date, but later materially changed.

6 – Evidence of insurability may be required to increase a policy's death benefit.

7 – This is generally funds to purchase a new policy and a small annual contribution to pay premiums.

8 – Both buy-sell agreements and key person protection plans are frequently funded with life insurance. Under the provisions of IRC Sec. 101 (j), added by the Pension Protection Act of 2006, death proceeds from a life insurance policy owned by an employer on the life of an employee are generally includable in income, unless certain requirements are met. Professional legal and tax guidance is strongly recommended. State or local law may vary.

9 – A family member, as defined in IRC Sec. 267(c)(4) includes the individual's brothers and sisters, spouse, ancestors, and lineal descendants.

10 – See IRS Notice 2009-48, Q&A14, for a description of changes to existing EOLI contracts which would not be considered "material" change.

11 – Under regulations issued by the Treasury Department on 7/26/07, annuity contacts issued prior to 9/24/07 may provide incidental life insurance protection; contracts issued on or after that date may not provide any life insurance. See Reg.1.403(b)-11(f).

12 – The IRS has never formally ruled on the taxability of using aged contributions, in excess of the incidental insurance rules, to purchase life insurance. See also Rev. Ruling 60-83 and Rev. Ruling 68-24.

13 – The assumed aggregate contribution is a special calculation separate from the funding calculations.

14 – The Pension Protection act of 2006 modifies the funding rules for defined benefit plans. Recent comments from IRS officials indicate that life insurance may no longer be funded directly as part of the plan's normal cost. In this case, life insurance may not increase plan contributions significantly in the early years of a plan.

Material provided by Advisys.

Disclosure Notice

The information that follows is intended to serve as a basis for further discussion with your financial, legal, tax and/or accounting advisors. It is not a substitute for competent advice from these advisors. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney. The application of other concepts may require the guidance of a tax or accounting advisor. The company or companies listed below are not authorized to practice law or to provide legal, tax, or accounting advice.

Although great effort has been taken to provide accurate data and explanations, and while the sources are deemed reliable, the information that follows should not be relied upon for preparing tax returns or making investment decisions. This information has neither been audited by nor verified by the company, or companies, listed below and is therefore not guaranteed by the as to its accuracy.

If a numerical analysis is shown, the results are neither guarantees nor projections, and actual results may differ significantly. Any assumptions as to interest rates, rates of return, inflation, or other values are hypothetical and for illustrative purposes only. Rates of return shown are not indicative, and will vary over time. Any reference to past performance is not indicative of future results and should not be taken as a guaranteed projection of actual returns from any recommended investment.

JMB Financial Managers, Inc. is a Registered Investment Advisor; Securities and Investment Advisory Accounts through Cetera Advisors LLC member FINRA, SIPC; Cetera Advisors LLC does business in California as CFGA Insurance Agency; JMB Financial Managers, Inc, and Cetera Advisors LLC are not related companies.