

Information About Your Life Insurance Policy You're Probably Not Aware Of

On behalf of Futterman, Lanza & Pasculli, LLP | Mar 15, 2021 | Guest Posts |

The following is a guest blog by Henry Montag, CFP.

Most Individuals purchase a life Insurance policy, place it in their safe or bottom left desk drawer, and await the bill so it can be paid and mailed to the Insurance company to maintain their coverage. Most individuals are not aware that 55% of their life insurance protection is not guaranteed and that it must be actively managed just like their stock or bond or real estate portfolio. Due to reduced sustained interest rates over the last 20+ years, individuals are increasingly discovering that their life Insurance coverage is expiring years earlier than expected.

They have been treating their life Insurance as a 'Buy & Hold' asset rather than as a 'Buy & Manage' asset and as a result their life Insurance coverage is expiring before they do.

There is nothing more disheartening than learning that a life insurance policy you have been paying for years, was not sufficient to keep your coverage in force. How can that be you paid the premium you received from the Insurance company in full and on time just like you were supposed to? The problem is that as interest rates continuously decreased over the years, you should have increased the premium payments on that non-guaranteed policy you were paying to the Insurance company.

The next question is why didn't my agent advise me to pay a higher premium, or why didn't the life Insurance company adjust my premium? The answer is that it wasn't the agent's responsibility, nor was it the Insurance company's job to advise you to properly manage your premium, that was the responsibility of the owner of the policy. Unfortunately, the owner, or the trustee if the policy was owned by a trust wasn't aware of their responsibility and he/she has no recourse other than to assume responsibility for their error themselves.

Secondly everyone knows that a life insurance policy pays a death benefit to the beneficiary when an insured dies. But not everyone is aware that a life Insurance policy can also provide a living benefit to the Insured as well as to the beneficiaries. For example, when an Insured discovers that they must now pay a significantly higher premium to make up for the years of an insufficient premium an Insured has another choice rather than to pay the higher premium or to allow the coverage to lapse. Instead, they can sell the policy to an institutional investor as a 'Life Settlement' if they meet certain criteria and turn the bill into a cash payout.

Another lesser- known fact is that an individual can now withdraw funds from the death benefit of a life Insurance policy tax free to pay for an unreimbursed long term care expense, thus using part of their death benefit to make their life easier for themselves while they are still alive.

Lastly, an individual can use a life Insurance policy's tax deferred accumulated cash value to supplement their own retirement rather than leave the entire death benefit for their beneficiaries.

These are just a few items that can make owning a life Insurance policy more advantageous to the owner as well as to your beneficiaries. Today's life Insurance policies are more complex and have many additional features and benefits that simply weren't available years ago. But it's your responsibility to learn how to use this information to your advantage.

About Henry Montag

Henry Montag, CFP, Managing Director of The TOLI Center east in practice since 1984 with offices in Long Island New York. Mr. Montag has authored articles and acted as a source for NYSBA, NYSSCPA, Bloomberg Tax Daily Tax Report, Bloomberg Estates Gifts & Trust Journal, and The Wall Street Journal.