

THE LONG-TERM VALUE OF LEVEL COST LIFE INSURANCE



THE ISSUE

Policyholders affected by the March 10/8 Budget proposals have been pre-occupied with planning to avoid the new rules that take effect on January 1, 2014.

Staying the course for the remainder of 2013 remains the best plan for most, allowing time for the insurance industry to possibly win well-justified grandfathering, and for the insurers to develop alternative options that could benefit policyholders more than simply withdrawing cash values to repay credit facilities.

Now is a good time for 10/8 policyholders to reflect on the value of their underlying level cost life insurance policies that remains unaffected by the Budget proposals.

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WESTWARD'S VIEWPOINT

A life insurance policy is the cornerstone of a Westward solution. It is often a universal life insurance policy that provides liquidity on death to cover urgent cash requirements for estate taxes or buy-sell obligations. Usually, the policy provides level cost of insurance (LCOI) for life, which is ideal for those who intend to keep coverage for life and want to avoid escalating rates in later years.

If passed as is, the Budget proposals will close down loan facilities secured by life insurance where the loan interest rate is tied to the rate earned by cash values inside the policy. **The proposals have no impact on the advantageous economic fundamentals of an LCOI policy.** LCOI policyholders with 10/8s should hold on to their LCOI policies regardless of how the Budget proposals play out. Don't throw the baby out with the bathwater.

LCOI policyholders are getting a great deal on insurance, typically earning double digit returns on invested premiums over their actuarial life expectancies. The LCOI life insurance policies continue to be a very important element of the estate, business succession, or charitable giving plans and should be retained.

LCOI policyholders should recognize the significant value of these financial assets. Past premiums have built up reserves within the policy that effectively prepay future insurance costs. Replacing the policy with a new one and starting from scratch will most certainly incur significantly higher fixed LCOI premiums. Fewer and fewer insurers are offering LCOI policies. Those who remain in the ring have increased the rates for new policy premiums several times in recent years. Some believe that LCOI's days are numbered and this type of policy may soon disappear entirely from the marketplace.

The window of opportunity hasn't shut completely. Anybody considering permanent life insurance should compare LCOI and take advantage of the rates and the coverage while it's available. An LCOI policy remains an exceptional estate planning tool when compared to other products and approaches for the following reasons:

- Cost of insurance is fixed for life
- Policy cash value can prepay future insurance charges
- Policy cash value can be used as loan collateral
- Minimum monthly payments are significantly less than whole life policies
- Policyholders can control the investment choices of the cash value
- The future performance of the policy can be predicted with certainty

LCOI policyholders with 10/8 arrangements will likely be able to replace the 10/8 credit facility with some alternative before 2014. The insurers want to keep the business and are likely to **offer incentives to keep policyholders on board** if they believe the final Budget will compel policyholders to withdraw all their cash values to repay the 10/8 loans.

The Budget proposals are not yet law. We will know later this year if 10/8's win grandfathering or if insurers will offer new options. In the meantime, LCOI policyholders with 10/8 arrangements should stay the course and recognize the continuing value of their underlying LCOI insurance.

