#FPC: Dave Ramsey Is Right & Very Wrong About Permanent Life Insurance (Pt. 2)

Last week?s piece was on why Dave Ramsey is right and wrong about permanent life insurance and some of the reasons you may consider using a permanent life insurance policy.

To reiterate last week?s sentiment-permanent life insurance is not for most, but if you:

- *Max out your retirement savings*
- *Make too much to contribute to a Roth*
- *Have accumulated a large savings account*
- *Want to gain flexibility from taxes*
- *Want growth, but would like some protection from high valuations*
- *Have a large estate that needs estate tax protection*

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Let?s discuss some of the benefits of these policy?s:

- ***No 1099?s****- your cash value isn?t taxed year to year like most non-qualified investments, in fact if used properly the funds will never be taxed*
- ***Distributions aren?t considered income*** *(when done properly) so unlike your pre-tax 401K, you?ll be using these funds tax free, which will be a big deal in retirement*
- ***No Income limitations****-that?s right say goodbye to those income limitations most are familiar with on IRA?s*
- ***No Contribution Limits****- it?s difficult to super charge your savings in tax free or tax deferred accounts due to the contribution limits. In 2020, you can contribute $19,500 to an employer sponsored plan with a catch-up provision of $6,500 for those over 50. In an IRA you?re much more limited. You may contribute up to $6,000 with an additional $1,000 catch up provision for workers 50 or older. Another great tool that?s finally gaining the recognition it deserves is the HAS or Health Savings Account. If you have access to an HSA an individual may contribute $3,550 and a family can contribute $7,100. If you?re maxing out all of these and hopefully utilizing a Roth you?re likely in pretty good shape, but where do those additional funds go?*
- ***No age requirement for distributions****- cash value can be used at any time. Need funds for kid?s college, or retired early prior to 59 1/2-no problem.*
- ***Likelihood of tax reform impacting your policy is low****- this is a little loop-hole that many think may change in the future because of the ability to grow and distribute funds on a tax free basis. With the path the government is on I?m concerned not to have this tool. The 80?s were the last time changes were made to these types of plans and current policy holders*

were grandfathered to have no changes made to their policies, but only impacting future policy holders. The belief is that the precedent has been set and it would be unfair to materially impact the plans already underway.

- ***Creditor Protection****-most all states offer some sort of creditor protection some full and some partial. Check with your state to determine how protected you are from potential creditors or judgments.*

All these advantageous aspects why don?t we hear more about these types of tools or why do they get a bad wrap?

Dave Ramsey is right. They?re not for everyone. BUT for the few who already know how to save, high income earners or those just looking to be a little more strategic this could be a viable option.

I think many also have an aversion to these products because they are misunderstood or they felt the pressure of someone trying to make a hard sell. Let?s be very clear, a recommendation for such a policy should only come after a thorough financial plan is done. We often say planned, not sold, they are a complex piece to an already complicated puzzle.

Buyer Beware:

Many agents, or *?financial advisors,?* who sell insurance are held captive to 1 firm and 1 product or are limited in some way. Here I use the term ?financial advisors? very loosely, because many are just salesman trying to make a quick buck, not advisors. Have hammer, see nail. Unfortunately, it?s not that easy or at least it shouldn?t be.

I believe any and all financial decisions should be made holistically by looking at the big picture through a telescope and then bringing it back down to each star in your universe with a microscope. Not sparing any detail. After all, each piece of the puzzle must fit and work together. Ideally, you want to work with someone who is independent from working only with one firm so they may scorch the earth to find the best policy for you and your family.

Life insurance, or an annuity, is also not a tool you put all of your funds in and if anyone advises so, RUN!

In the coming weeks we?ll discuss how to use permanent life insurance for cash accumulation or estate planning, what to look for in a policy and the different types of permanent life insurance available.