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FAQs
How to Think Opportunistically in this Environment
(part 2 of 2)

In our first series of FAQs, the questions focused on how Covid-19 was impacting the life insurance companies. Recently, we have been receiving inquiries from both clients and advisors as to how to think opportunistically in this environment.

Sequence of Return Risk

My wealth advisor just showed me a spreadsheet that compares one's "nest egg" if they retire and immediately experience poor market returns vs. retiring during a bull market. Is there an insurance product that can protect me from sequence of return risk in retirement?

For those beginning retirement this year or in the near future, the market losses experienced from the February highs can be both substantively and emotionally devastating. And needing to take income from a portfolio that has suffered market losses necessitates selling before the market has had time to recover.

There are life insurance structures which provide guaranteed annual growth or have guaranteed performance floors. These vehicles allow clients to access cash flow from a non-taxable bucket that is largely immune from the swings of the general market. Having this option allows the client to be patient with their other investments.

Guarantees

These market swings are unnerving. How can I lower the volatility of my legacy portfolio?

The recent market disruption has prompted families to reexamine the risk profile of their long-term legacy assets. Is the effect of the market volatility more than they had anticipated? Have they assumed more risk than is optimal for their long-term planning horizon? Because of this, many of our clients are seeking mechanisms to preserve legacy certainty and enhance portfolio stability while still maintaining the benefit of long-term market exposure.

Life insurance with a death benefit guarantee is a non-correlated, tax-advantaged legacy asset in which all market risk and interest rate risk is transferred to the insurance company. A small portion of a legacy assets can be leveraged to achieve a guaranteed benefit for many multiples of the original investment. This mortality hedge provides the certainty and stability which helps our clients achieve their legacy goals even in the face of extreme market conditions.

Income Tax Mitigation

What is the impact of all of this new debt?

On March 27th the Cares Act was signed into law. The total stimulus passed is nearing $2.5 trillion and is likely to grow as the full economic damage from Covid-19 is realized. Current income tax rates are near historic lows. As the budget deficit and the national debt expands, most commentators believe that taxes will have to increase in the future.

Even before this pandemic, all of the major democratic candidates were calling for larger taxes on wages and capital gains of "wealthy" families. Because life insurance allows for tax deferred growth, non-taxable access and an income tax-free death benefit, it is an effective hedge against future tax burdens. To the extent that taxes increase, life insurance objectively becomes more valuable.