



Life Insurance: Providing Financial Protection



Life insurance is a key component of Americans' ability to take individual responsibility for the financial futures of their families and businesses. It is unique in guaranteeing the delivery of financial security at precisely the moment it is needed, while contributing significantly to the nation's storehouse of savings and investment capital.



AMERICAN COUNCIL OF LIFE INSURERS

A big fear for many American families is the death of a wage-earner or caregiver, leaving the surviving family members unable to cope financially. Life insurance offers peace of mind through immediate financial protection for dependents.

Life insurance enables individuals and families from all economic brackets to maintain independence in the face of financial catastrophe. In a recent study, more than three in four respondents strongly agree that life insurance is a critical part of a financial plan.¹



By providing tools for protection and savings, life insurance is an efficient way to promote personal responsibility and thus relieve pressure on government programs. There continues to be strong public support for continuation of current tax policy for life insurance products.



SUCCESS OF THE PRODUCT

Life insurance protects families against financial loss from the death of a loved one. It provides a source of reliable liquid assets when the need arises to pay for death-related expenses, including medical bills and funeral costs. It also can help families cover daily living expenses, mortgage and tuition payments, and child care.



Permanent life insurance has an additional advantage—it is guaranteed to remain in force for one's whole life, regardless of age. By design, the level premiums of permanent insurance are used to both pay for the term cost of a policy's face amount (death benefit) and to create a savings aspect (cash value), which helps cover the rising cost of insurance as one gets older. In addition, the policy's cash value can be borrowed to pay important family expenses, such as those for tuition or long-term care. If an insured's needs change and the death benefit protection becomes less acute, the cash value can be converted into a retirement income producing annuity that can guarantee regular payments for life or for a specified period of time, an option also available to beneficiaries of life insurance policies. Some policies allow an insured to collect all or part of the death benefit if he or she becomes terminally or chronically ill. An insured also can cancel (surrender) the policy and receive the cash value as a lump sum. Fifty-seven percent of respondents in a 2009 survey said that one of the most important benefits of life insurance is its cash value because it is a built-in reserve for emergencies.³



¹ American Council of Life Insurers, *Monitoring Attitudes of the Public 2009*.

² American Council of Life Insurers, *Life Insurers Fact Book 2014*.

³ American Council of Life Insurers, *Monitoring Attitudes of the Public 2009*.

ACLI

The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 300 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. ACLI's public website can be accessed at www.acli.com.

AALU

The Association for Advanced Life Underwriting (AALU) is the leading organization of successful life insurance professionals who are a trusted voice on the unique public policy issues involving the advanced life markets. Founded in 1957, the AALU counts more than 2,200 professionals as members.

www.aalu.org.

GAMA International

GAMA International is a worldwide professional association serving 5,500 field leaders in the insurance and financial services industry. Its members recognize their critical role in finding, building and inspiring the next generation of top performers who will, in their turn, lead the industry into the future. To help build these leaders, the association provides its members with professional development resources and opportunities, including educational, networking and leadership. GAMA International's website is located at www.gamaweb.com.

IRI

The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 20 organizations, and is the only association that represents the entire supply chain of insured retirement strategies. IRI members are the major insurers, asset managers, broker-dealers/distributors, and 150,000 financial professionals. As a not-for-profit organization, IRI provides an objective forum for communication and education, and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement. Learn more at www.ironline.org.

NAFA

The National Association for Fixed Annuities (NAFA) is a trade association exclusively dedicated to educating regulators, legislators, journalists and industry personnel about the value of fixed annuities and their benefits to consumers. NAFA's membership represents every aspect of the fixed annuity marketplace, covering 85 percent of fixed annuities sold by independent agents, advisors and brokers. NAFA was founded in 1998 and recently celebrated its 15th year of serving the fixed annuity industry. To learn more, visit www.nafa.com.

NAILBA

The National Association of Independent Life Brokerage Agencies (NAILBA) is a nonprofit trade association with over 370 member agencies in the U.S. and Canada. NAILBA is the premiere insurance industry organization promoting financial security and consumer choice through the use of independent brokerage distribution. The purpose of NAILBA is to serve as the national association of life, health and annuity insurance distributors. www.nailba.org.

NAIFA

Founded in 1890 as The National Association of Life Underwriters (NALU), the National Association of Insurance and Financial Advisors (NAIFA) is one of the nation's oldest and largest associations representing the interests of insurance professionals from every Congressional district in the United States. NAIFA members assist consumers by focusing their practices on one or more of the following: life insurance and annuities, health insurance and employee benefits, multiline, and financial advising and investments. NAIFA's mission is to advocate for a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of its members. www.naifa.org.

Businesses use permanent life insurance to protect against financial uncertainty and secure their employees' futures. By owning life insurance on key employees, businesses have a secure funding source to pay for important employee and retiree benefits and to protect jobs and families from financial loss and instability that can result from the death of an owner or key employee.

CURRENT TAX TREATMENT

Policy-makers have long-recognized the important social policy served by encouraging individuals and families to protect themselves against financial risks, rather than depend on government to do so. Since its inception in 1913, the tax code has provided that death benefits—and the cash value in permanent life insurance—are not subject to income tax.

Premiums are paid with after tax dollars—there is no deduction for premiums paid. Earnings on a permanent life insurance policy's cash value are not taxed as long as the policy remains in force. However, if a policyholder gives up his or her insurance protection, earnings in excess of the total premiums paid are subject to tax.

There are strict limits on the savings aspect of life insurance to ensure its tax treatment is not abused. Contracts that do not comply with these limits are denied the tax treatment entitled to life insurance.

The protection afforded by life insurance is an important societal benefit that public policy has consistently validated. This policy has been reviewed several times over the last century, and each time Congress has chosen to preserve the current tax treatment of permanent life insurance.

CONCLUSION

The current tax treatment of permanent life insurance encourages individuals, families, and businesses to efficiently manage risk and prepare for long-term financial needs, despite a general environment that focuses more on the short-term. Americans are facing greater hurdles than ever before when planning for financial security. Any changes to public policy must encourage Americans to plan for their financial futures.

KEY FACTS

- 75 million American families count on life insurers to protect their financial futures.⁴
- American families have more than \$19.66 trillion worth of life insurance protection through individual policies and group certificates.⁵
- In 2013, life insurance beneficiaries received \$64 billion in death benefits.⁶
- At the end of 2013, 144 million individual life insurance policies were in force.⁷
- Of new individual life policies issued in 2013, 64 percent were permanent life insurance policies.⁸
- 78 percent of respondents to a recent survey believe that it is important for the government to encourage people to protect their families with life insurance.⁹

⁴ ACLI calculations based on U.S. Census, *Current Population Survey 2013*, and Federal Reserve Board, *2013 Survey of Consumer Finances*.

⁵ American Council of Life Insurers, *Life Insurers Fact Book 2014*.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ American Council of Life Insurers, *Monitoring Attitudes of the Public 2009*.