



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.

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. Two-thirds of American families are protected by life insurance.²

The amount of life insurance is determined by the financial needs of individuals and families. Some experts suggest coverage should equal at least seven to 10 times annual income. It is impossible for most families to save enough money to manage the financial consequences associated with the death of a wage-earner or caregiver. Life insurance makes managing these risks affordable through the pooling of risk. Industry data shows that in 2009 there were 153 million individual life insurance policies in force.³

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.⁴



AMERICAN COUNCIL OF LIFE INSURERS



NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS



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

² Federal Reserve Board, *2007 Survey of Consumer Finances*, February 2009.

³ American Council of Life Insurers, *Life Insurers Fact Book 2010*.

⁴ American Council of Life Insurers, *Monitoring Attitudes of the Public 2009*.

AALU

Founded in 1957, the Association for Advanced Life Underwriting (AALU) is a professional trade association representing 2,000 life insurance agents and financial advisors nationwide. Most members are engaged in complex uses of life insurance such as in business continuation planning, estate planning, charitable planning, retirement planning, deferred compensation and employee benefit planning. The mission of AALU is to promote, preserve and protect advanced life insurance planning for the benefit of its members, their clients, the industry and the general public. www.aalu.org

ACLI

The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent more than 90% of the assets and premiums of the U.S life insurance and annuity industry. In addition to life insurance and annuities, ACLI member companies offer pensions, 401(k)s and other retirements plans, long-term and disability income insurance, and reinsurance. www.acli.com.

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. www.gamaweb.com.

NAIFA

NAIFA comprises more than 700 state and local associations representing the interests of approximately 200,000 agents and their associates nationwide. NAIFA members focus their practices on one or more of the following: life insurance and annuities, health insurance and employee benefits, multiline, and financial advising and investments. The Association'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. Visit NAIFA's website at www.naifa.org

NAILBA

The National Association of Independent Life Brokerage Agencies (NAILBA) is a nonprofit trade association with 375 member agencies in the U.S., representing 250,000 producers who deliver more than one billion dollars in first year life insurance premiums annually. NAILBA is dedicated to fostering the growth of its member agencies by providing educational resources, industry standards and a collective voice for legislative and regulatory efforts. Each of NAILBA's members commits to a statement of responsibilities to ethically and responsibly serve their clients' best interests. www.nailba.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.⁵
- American families have more than \$18 trillion worth of life insurance protection through individual policies and group certificates.⁶
- In 2009, life insurance beneficiaries received \$59 billion in death benefits.⁷
- At the end of 2009, 153 million individual life insurance policies were in force. Of the 10 million policies issued in that year alone, 59 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

⁵ ACLI calculations based on U.S. Census, *Current Population Survey*, and Federal Reserve Board, *2007 Survey of Consumer Finances*, February 2009.

⁶ American Council of Life Insurers, *Life Insurers Fact Book 2010*.

⁷ Ibid.

⁸ Ibid.

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