

# A REVIEW OF CASH VALUE LIFE INSURANCE



Key success factors every retina specialist should understand.

BY JASON M. O'DELL, MS, CWM, AND DAVID B. MANDELL, JD, MBA

**A**n important topic in personal finance for all types of physicians, including retina specialists, is the use of permanent, or “cash value,” life insurance. Proponents point to several benefits, including the variety of cash value accumulation options that can be customized to a particular doctor’s goals, the asset protection offered (in many states), and the significant tax benefits afforded by such policies. Detractors focus on policy costs and opine that it is often better to “buy term and invest the difference.” As advisors who recommend (and personally own) both term and permanent policies, we understand that each product type has specific pros and cons and its proper place in wealth planning.

However, cash value insurance products can be complex, and carriers and products differ. Thus, it is critical that physicians understand them well and work with professionals who have experience in the marketplace. Here, we highlight several important success factors when implementing cash value life insurance in a physician’s wealth planning.

## LONG TIME HORIZON

Whether a permanent life policy is designed to accumulate significant cash values for the policyowner’s retirement, for an executive’s buyout, or for another purpose, it is important that the purchaser have a relatively long time horizon (ie, 15 years or more). Of course, if the policy is designed for estate planning, the time horizon may be 30 years or more, depending on the age of the insured.

A long time horizon is important because most cash value life policies frontload expenses, including agent commissions. To better understand this, consider an “A” share mutual fund where the sales load is charged up front

and there are no ongoing charges. Compare this with a “B” share fund, for which there is no sales load upfront, but there is an annual fee. Which of these funds is more cost-effective depends on how long the investor intends to hold the fund: One can calculate a break-even point before which the B share is best and after which the A share is best.

Permanent life insurance is like the A share mutual fund example. Rather than a sales load in a fund, many life policies have a surrender charge that is imposed if you surrender the policy in full. Importantly, however, the surrender charge does not apply if you access only a portion of the cash value.

The amount of the surrender charge covers many of the insurance company’s upfront expenses, including the agent commission, and the surrender charge goes down with time. In many policies, the surrender charge hits zero between 8 and 15 years after purchase of the policy. If you keep the policy in force beyond the surrender period, you have effectively amortized the upfront costs over time and will not be penalized if you surrender the policy.

Taxes are another important reason to keep these policies in place for the long term. This is especially true if you plan to use these policies for future retirement income because the tax benefits afforded by a cash value life insurance policy—tax-free growth within the policy and tax-free access through basis withdrawals and policy loans—gain value as the policy growth compounds with time. As with a Roth IRA, simple math dictates that the longer you can enjoy tax-free growth and access, the better.

## REGULAR REVIEWS AND MAINTENANCE

Permanent life insurance is like any other asset class in which you can invest: Regular performance reviews are

mandatory. Just as you review your investment performance with your investment advisor annually (or even quarterly), so too should you review your life policy with your insurance agent on a regular basis. It is during these reviews that you can make decisions on myriad options within the policy. Whether this means changing investments within the policy, paying a higher or lower premium, changing premium frequency, adjusting the death benefit, adding or removing a beneficiary, or even exchanging the policy for a different type, regular reviews are the time when the agent and policy owner bring issues to light and make decisions accordingly. Permanent life insurance is not a set-it-and-forget-it asset; few valuable assets are.

### CHOOSE YOUR AGENT WISELY

The most important of the success factors for using a permanent life insurance policy (all covered in our book) may be working with an ethical insurance agent who understands the plethora of products in the market and is familiar with the details of the specific policy types you can choose. If you work with such an agent, they will make sure the other success factors are in place. The absence of any of the success factors discussed here could undermine the performance of the policy and how you evaluate the use of the asset class in your planning.

When looking for a life insurance agent, it is important to work with one who is not operating under a captive or quasi-captive arrangement, in which the agent can only sell one company's products (or is highly incentivized to do so). Rather, seek an insurance advisor who is independent with no restrictions on the policies they can provide and without any overhead payment incentives to prioritize one company's products over another.

Beyond independence, the agent should have significant experience with permanent life insurance policies along with overall expertise in the insurance marketplace, so they understand what could go awry and can build in flexibility to avoid such situations. Finally, it is always a good idea to work with professionals who are well regarded in the industry and can provide numerous references.

### WEIGH YOUR OPTIONS

Permanent life insurance, also called cash value life insurance, offers tremendous tax, wealth accumulation, asset protection, and estate planning benefits. However, as with any sophisticated financial strategy, there are important success factors to consider when choosing and implementing one. ■

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#### JASON M. O'DELL, MS, CWM

- Principal, OJM Group, Cincinnati
- [odell@ojmgroup.com](mailto:odell@ojmgroup.com)
- Financial disclosure: OJM Group (Employee)

#### DAVID B. MANDELL, JD, MBA

- Partner, OJM Group, Cincinnati
- [david@ojmgroup.com](mailto:david@ojmgroup.com)
- Financial disclosure: Employee (OJM Group)



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