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Understanding Insurance-Based Investments





Insurance-Based Investments

What is it?

Insurance-based investments are those that are issued or underwritten by an insurance company. Examples include annuities and life insurance products. As with any investment vehicle, you should consider several factors before allocating funds, including the types of products available, the advantages and disadvantages of each (including the tax consequences), and your investment goals. How well do various insurance-based investments compare with other investments, and how well do they match your goals? In addition, you should consider the strength and quality of the underlying insurance companies.

Annuities

An annuity is a savings vehicle often used for retirement purposes. It is a contract issued by an insurance company that allows for tax deferral on earnings. In other words, you won't owe taxes at the end of the year simply because your annuity increases in value. Essentially, you pay money to an annuity issuer, the issuer invests the money for you, and the issuer pays out the principal and earnings to you based on the distribution option you have chosen.

There are two broad options for receiving distributions from an annuity. The first option is to withdraw money as needed, although withdrawal charges may apply. The second option is the annuitization option, whereby you'll receive a guaranteed income stream from the annuity for a specified period, usually for life. (However, all guarantees are subject to the financial health and claims-paying ability of the issuer.) With annuitization, the annuity issuer promises to pay you an amount of money (either a fixed or variable payout) on a periodic basis. An immediate annuity is one in which the distribution period begins immediately (or within one year), while a deferred annuity involves a delayed distribution starting date.

Numerous types of annuities are available in the marketplace. In addition, there are several investment options and distribution possibilities. You should understand how annuities are taxed and know who to select as the annuitant and beneficiary of your annuity. By becoming familiar with the advantages and disadvantages of each type of annuity, you'll be able to compare an annuity investment with other forms of investments to find the vehicle that may best match your investment goals.

Investment strategies for annuities

Saving for retirement is one of the most common ways to use annuities. Tax-deferral benefits will allow your dollars to grow faster than would a comparable taxable investment. There are several other advantages, as well. For instance, unlike qualified retirement plans, commercial annuities typically do not place a limit on how much you can invest and do not have minimum distribution requirements after you reach age 70½. However, contributions to commercial annuities are not tax deductible. And, as is the case with qualified retirement plans, withdrawals made prior to age 59½ may subject you to a 10 percent early withdrawal penalty, unless an exception applies.

Life insurance

The primary purpose of life insurance is to replace the economic loss resulting from an individual's death. Insurance can provide cash for final expenses (i.e., funeral and burial), and it can provide financial protection for any dependents. The policyowner pays premiums in exchange for the promise of payment of a specified amount of money to a named beneficiary after the insured dies. There are other uses for life insurance, as well. Cash value policies, for example, can help you accumulate funds for savings, retirement, and college education; these funds can be accessed during your lifetime. Cash value policies allow their owners to take money from the policy after a specified number of years, either by borrowing or withdrawing from the policy. The primary benefits of cash value policies include forced savings, income tax deferral, and potentially tax-free withdrawals if the policy is handled properly. As with annuity contracts, many distribution options are available through most cash value policies.

In addition, life insurance has a number of business uses. For instance, it can serve as an employee benefit, provide key person coverage to your business, or fund a buy-sell agreement.

You should understand how life insurance policies work, become familiar with the different types of life insurance products, understand any tax ramifications, and analyze the extent to which a life insurance investment may help you attain your overall investment objectives.



Investment strategies for life insurance

Along with protecting your survivors in the event of your death, life insurance can be used to pursue financial goals, such as a secure retirement, your child's college education, wealth accumulation, or liquidity for estate costs. In addition, life insurance may provide you with certain tax benefits. Strategies that can be used with life insurance include buying term life insurance and investing the difference, using cash value life insurance to save for education or for retirement, using life insurance to derive tax benefits and accomplish philanthropic goals, and funding a buy-sell agreement.

Researching underlying insurance companies

It's important to buy insurance products only from financially secure, reputable companies. You can obtain information about insurance companies from several major insurance ratings services. These services review, evaluate, and rank the financial strength and claims-paying ability of insurance companies.

To schedule an appointment with Faye Sykes, click [here](#) .

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