

Does your upcoming retirement change your life insurance needs?

Many times, your needs in retirement differ from your needs in your working years. This is especially true with life insurance as the policy you purchased years ago may no longer serve its initial purpose. In addition, increased longevity and medical advances may allow insurance companies to offer you better terms on an upgraded policy. Or perhaps you no longer need life insurance protection, but want an income generating policy such as an annuity.

If this is your case, you could cash your life insurance policy in and then buy another insurance product more in line with your current needs. But if you did so, you'd have to pay taxes on any gain. By using a 1035 exchange, you can avoid any immediate taxes while converting to something more appropriate for your current stage in life.

Here are some things to consider. Selling or surrendering a life insurance policy triggers taxes since investment earnings on insurance policies grow tax-deferred. When you sell or surrender them, you have to pay tax on any gains above what you've contributed. This lowers their effective value to you.

But you can avoid this immediate taxation by doing a 1035 exchange that allows you to do a direct, tax-free transfer of accumulated funds from an existing life insurance policy (or annuity) to a new one.

As a hypothetical example, assume you've paid \$1,000 per year for 20 years for your old policy and received \$3,000 in dividends. Your cost basis would be \$17,000 (20 multiplied by \$1,000, less \$3,000) compared to the policy's cash surrender value of \$10,000. If you surrender the old policy and purchase a new one with the \$10,000, the cost basis on your new policy is \$10,000.

But if you rollover your current policy to a new one via a 1035 exchange, you can retain the \$17,000 cost basis of the old policy. You can even exchange several policies for a new one (assuming all the policies have the same insured party and owner.)

Can you benefit from a 1035 exchange? There's only one way to find out. Please call me for a no-cost, no-obligation review so you can make an informed decision on whether you can benefit from this strategy.



Elliot Goldberg is an independent Registered Investment Advisor specializing in helping clients generate dependable lifetime income for their retirement. Please contact him for more information at (610) 999-3599 or eg@goldata.com.

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