



Winged Keel Group Insights

Buy Now or Buy Later: 3 Reasons Not to Delay Your Purchase of Permanent Life Insurance

Winged Keel Group Insights is a publication designed to educate and build awareness around life insurance topics and solutions that may address certain needs of your clients and their multidisciplinary goals.

Clients often ask if they should buy permanent life insurance now or later. While the decision is always personal and depends on multiple factors, waiting is rarely the best option. If you're wondering if it's the right time to buy life insurance, the answer is simple. Buy it now.

This perspective is driven by three reasons.

1. The risk is still there

This may be the simplest element of the explanation. If you don't buy life insurance... your heirs do not receive a life insurance benefit when you pass away. You are in effect choosing to self-insure, and for each day you do not own life insurance you are depriving your beneficiaries of an income tax-free (and estate tax-free, if properly owned in a trust) payout.

For individuals healthy enough to qualify for life insurance, the odds of passing away in the first five to ten years of purchasing a policy are very low. However, the odds are not zero.

While it may seem obvious, this is an important point most clients miss – if you do not acquire at least a basic level of permanent life insurance coverage (10% - 20% of your overall net worth), you are accepting the risk that a part of your estate will be used for long-term planning purposes that life insurance could have covered much more efficiently.

2. It doesn't get any less expensive

Unsurprisingly, annual premiums for life insurance coverage do not decrease as one gets older – they

increase. And one of the few certainties in life is that as each day passes, we get older.

This is not a revelation for most clients, but the reasons why this happens are less well understood. There are three forces impacting the increase in pricing as insureds get older:

- The first and most obvious reason is that the cost of life insurance coverage increases as the probability of death in any given year increases. Generally speaking, the odds that a 60-year-old will pass away in next 12 months are materially higher than a 40-year-old and insurers price premiums to reflect the risk of an earlier death.
- The second and perhaps less obvious reason is that life insurance pricing is determined by timing. If you buy life insurance later in life, you can expect to pay premiums for fewer years (at age 40, healthy insureds have 50 years until life expectancy but at age 60 there are only 30 years remaining). This also makes intuitive sense. A shorter period over which to collect premiums leads life insurance companies to charge more for the coverage they provide.
- The third reason has to do with assumed rates of return in the policy. For one of the most popular types of policies our clients acquire, Guaranteed Variable Universal Life, the Internal Rate of Return (IRR) on premiums paid actually declines as the insured gets older. This has to do with underlying assumptions life insurance companies make about how much money they can earn on premiums paid into the policy. Generally speaking, for younger insureds with long life expectancies that assumed rate of return is higher (and thus premiums are lower).

3. Waiting to get healthier doesn't benefit you much

For the great majority of individuals, aging is a process of decline. Life insurance policies are priced to this reality.

With the evidence of data from thousands of policies written, it is clear that qualifying for a Preferred or better risk classification from an insurance company is much easier when insureds are in their 30s and 40s than in their 60s and 70s. Even in rare instances when clients are able to slow/reverse their aging, as shown in the chart below, the relative pricing advantage of waiting to obtain coverage is not there.

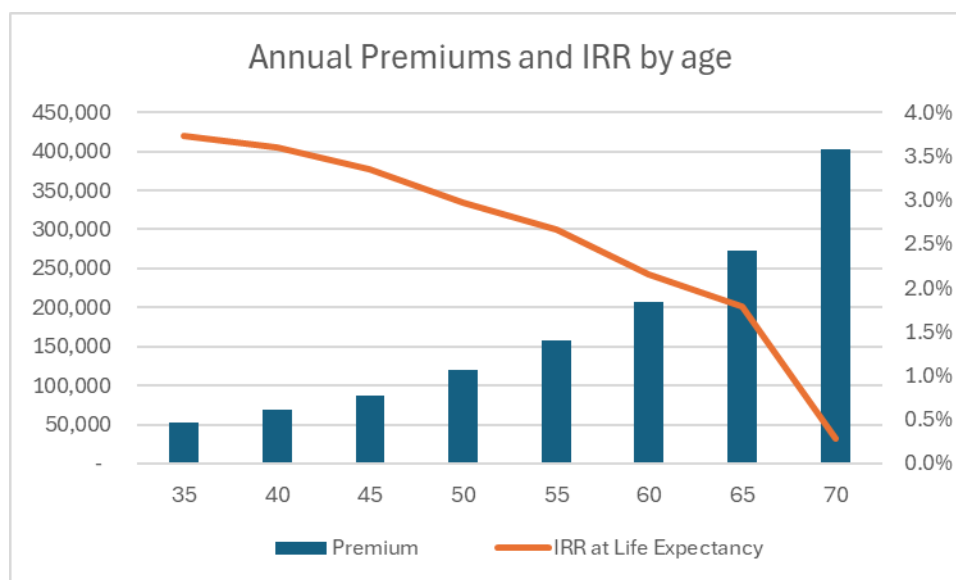
It's also worth noting that life insurance companies allow insureds to improve their risk classifications

after the policy is in force for two years, so an insured whose health does improve may be able to realize better pricing without having to buy a new policy.

Conclusion: Once a client and their professional advisors have determined that some amount of permanent life insurance is appropriate in the context of the client's overall financial plan, there are compelling reasons to move forward with the purchase. In most situations, the best time to acquire life insurance coverage is now.

To learn more, reach out to your Winged Keel Group relationship manager. For more information on Winged Keel, please visit our website at wingedkeel.com.

The following chart compares annual premiums for life insurance coverage at various ages, using a single-life Prudential GVUL policy on a female insured for \$10 million of insurance benefit.



Notes:

1. These results are for illustrative/informational purposes only and may not reflect the typical purchaser's (client's) experience. These results are not intended to represent or guarantee that any client will achieve the same or similar results.
2. The analysis above does not include any fees charged by professional advisors engaged by the client for tax and/or legal advice.

DISCLOSURES

Life expectancy assuming the insured is classified as a Preferred non-smoker life insurance risk: Female Age 30, 61 years; Female Age 40, 51 years; Female Age 50, 42 years. Life expectancy is defined herein as the year in which the probability of the insured still being alive is 50%, based on the Society of Actuaries' 2008 VBT Select mortality table.

Under current tax law, if the policy lapses or is surrendered, all investment gains in excess of the policyowner's cost basis are taxed to the policyowner as ordinary income in the year the policy lapses or is surrendered. Pricing results assume premiums, to guarantee a \$10,000,000 insurance benefit for lifetime, are paid over the time periods shown. The insurance benefit and premium schedule for Guaranteed Variable Universal Life policy are guaranteed through the life of the insured. Assumes that premiums are paid by the end of the grace period following the policy anniversary dates. Assumes a level annual net rate of return as shown herein in the variable policy subaccounts after investment management fees and before insurance-related charges. Insurance premiums, insurance benefits, and assumed investment management fees are based on detailed illustrations provided by representative insurance companies.

S&P 500 Index return data taken from online sources that are assumed to be accurate. Data assumes no adjustment for inflation (CPI) and dividends are reinvested. Data source: S&P 500 Historical Return Calculator (dqydj.com).

Variable life insurance products are long-term investments and may not be suitable for all investors. An investment in variable life insurance is subject to fluctuating values of the underlying investment options and it entails risk, including the possible loss of principal. The IRR on the insurance benefit is equivalent to an interest rate (after taxes) at which an amount equal to the illustrated premium payments could have been invested outside the policy to arrive at the insurance benefit of the policy.

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