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Universal Life Insurance

Universal Life Insurance (UL) is a flexible form of permanent life insurance that provides both a death benefit and a cash value component. This type of policy can be a valuable financial tool for certain individuals with specific financial goals or needs. Below is a detailed breakdown of who should consider purchasing Universal Life Insurance and the purposes it can serve.

1. Who Should Purchase Universal Life Insurance?

Universal Life Insurance may be a good fit for individuals who:

a. Have Long-Term Financial Needs

- **Permanent Life Insurance Need:** Those who require lifelong coverage, such as to protect a dependent with special needs, support family members, or cover estate taxes, may benefit from UL's permanent coverage.
- **Leaving a Legacy:** People who want to leave a financial legacy, whether to their family or to a charitable organization, may use UL policies to ensure that their heirs or charity receive a death benefit after they pass away.

b. Desire Flexible Premium Payments

- **Variable Income:** Individuals with fluctuating income—like business owners, freelancers, or sales professionals—can benefit from UL's flexible premium structure. UL allows

policyholders to adjust their premium payments and death benefits as their financial situations change.

- **Control Over Contributions:** UL policies allow holders to increase or decrease their contributions to the cash value component, which can offer additional flexibility.

c. Want a Cash Accumulation Component

- **Tax-Deferred Growth:** The cash value in a UL policy grows tax-deferred, making it attractive to those seeking additional tax-advantaged investment options beyond traditional retirement accounts.
- **Access to Cash Value:** Individuals who may need access to funds in the future can benefit from a UL policy. The cash value can be used as a loan or withdrawal source, which can be beneficial for purposes like supplementing retirement income, paying for a child's education, or covering unexpected financial needs.

d. Need Estate Planning Solutions

- **High Net-Worth Individuals:** UL policies are often used in estate planning to help cover estate taxes, especially for high-net-worth individuals who want to protect their heirs from significant tax liabilities upon their death.
- **Wealth Transfer:** UL policies can help efficiently transfer wealth by providing a tax-free death benefit to beneficiaries, which can offset other taxable assets or high-value estates.

e. Are Comfortable with Policy Management

- **Active Management:** UL policies require more active management compared to traditional whole life policies.

Policyholders must monitor the cash value and premium payments, as insufficient funding or poor cash value performance could lead to a lapse in coverage.

2. Purposes of Universal Life Insurance

Universal Life Insurance can serve a variety of purposes depending on an individual's needs and financial situation:

a. Income Replacement

- **Death Benefit for Loved Ones:** UL policies ensure that dependents and loved ones have a financial safety net if the policyholder passes away. This benefit is particularly useful for individuals who want to ensure their family's financial stability long-term.

b. Cash Value as a Supplemental Retirement Fund

- **Supplemental Income:** UL policies with sufficient cash value can be tapped into during retirement to provide a tax-advantaged source of supplemental income, either through loans or withdrawals from the policy.

c. Legacy Planning and Wealth Transfer

- **Estate Equalization:** When dividing assets among heirs, UL policies can provide a death benefit to "equalize" inheritances. For instance, if one child inherits a business or property, the death benefit can provide other heirs with an equal share.
- **Funding for Charitable Giving:** Some policyholders use UL to leave a lasting legacy to charities. A charity can be named as a beneficiary, allowing the policyholder to support their chosen cause while receiving potential tax benefits.

d. Business Purposes

- **Key Person Insurance:** Businesses often take out UL policies on key employees or business partners. In the event of their death, the policy's death benefit can help the business cope with financial disruptions.
- **Executive Benefit Plans:** Employers sometimes offer UL policies as part of executive compensation, allowing high-level employees to benefit from life insurance coverage and cash value growth.

e. Estate and Tax Planning

- **Funding for Estate Taxes:** High-net-worth individuals may use UL policies to create liquidity in their estates. The death benefit can help cover estate taxes, so heirs don't need to liquidate other assets.
- **Avoiding Probate:** If structured properly, the proceeds from a UL policy can pass directly to beneficiaries, bypassing the probate process and providing quicker access to funds.

3. Types of Universal Life Insurance and Purpose-Fit

There are several types of UL policies that suit different needs:

- **Guaranteed Universal Life (GUL):** Offers a guaranteed death benefit with minimal cash value growth. This type is ideal for those primarily focused on ensuring a permanent death benefit without needing substantial cash value.
- **Indexed Universal Life (IUL):** Provides the opportunity for cash value growth based on the performance of a market index (e.g.,

S&P 500), with downside protection. This can appeal to those interested in cash accumulation with some market exposure.

- **Variable Universal Life (VUL):** Allows policyholders to invest the cash value in various subaccounts similar to mutual funds. This option suits individuals who want more control over their investment and are comfortable with market risks.
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4. Advantages and Disadvantages of Universal Life Insurance

Advantages:

- **Flexibility:** Premium payments, cash value accumulation, and death benefit adjustments provide policyholders with customizable options.
- **Tax Benefits:** Cash value grows tax-deferred, and the death benefit is generally income-tax-free for beneficiaries.
- **Access to Cash Value:** Cash value can be accessed via loans or withdrawals, providing liquidity.

Disadvantages:

- **Complexity and Management:** UL policies require regular monitoring and management, especially if the cash value is intended for future use.
- **Higher Premiums and Fees:** Compared to term insurance, UL can be costly due to fees associated with the cash value component.
- **Investment Risk (for IUL and VUL):** Cash value growth is subject to market conditions, and if poorly managed, can lead to insufficient cash value and policy lapse.

Conclusion

Universal Life Insurance is a versatile financial tool but is best suited for individuals with specific long-term financial needs, a desire for flexible premium payments, and an interest in combining life insurance with cash accumulation. It's often a better choice for those who are comfortable managing their policies actively and using life insurance as part of a broader financial or estate plan. As always, a licensed financial advisor can provide personalized guidance to determine if a UL policy aligns with an individual's financial goals and risk tolerance.

At Powell United Financial we are happy to partner with American National Insurance Company and offer some of the best performing Universal Life products in the USA.

Call today or visit our contacts page to set up your free consultation.

409-692-3882

www.powellunited.com

Sincerely,

Matthew Powell

Owner, Powell United Financial Services