LIFE INSURANCE AS AN ASSET CLASS

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As Harry Markowitz said, “diversification is the only free lunch in town.” Dr. Markowitz was referring to the idea of combining asset classes that behaved differently throughout time, thus providing a portfolio with greater risk adjusted returns. This means that while some assets may go down in value, others may increase in value —balancing your overall portfolio.

A life insurance policy is also an asset, providing noncorrelated returns, liquidity, and tax advantages. While some might consider the premiums an expense, life insurance is an asset that will provide cash, as promised under the contract, during your lifetime, or at death to designated beneficiaries. The amount paid by the insurance company at death will not be impacted by market conditions. Below are four reasons why a life insurance policy should be considered an asset.

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1. Expected Value

Assets come in all shapes and sizes, and so do their growth patterns. No one has a crystal ball so trying to determine what the value of these assets will be in the future is limited. Life insurance, however, can provide an expected, predictable, and sometimes guaranteed value depending on the type of policy that is purchased. For the payment of a specific premium, the specific death benefit will be paid should the policy holder pass on tomorrow or 20 to 30 years from now.

2. Noncorrelated to Market Performance

Many asset portfolios are comprised of stocks, bonds, and mutual funds that may be volatile and fluctuate frequently. Unfortunately, having a strong, highly valuable investment portfolio today does not necessarily mean that today’s value will eventually be passed on to your loved ones. Life insurance, with the exception of variable universal life insurance, is not tied to market performance. Having an asset in your portfolio that is noncorrelated to market performance is tantamount to being diversified.

3. Immediate Liquidity

For many individuals, the majority of their assets are comprised of their businesses, real estate properties, and other illiquid assets. This can present a huge problem when trying to cover final expenses, estate taxes and other costs associated with wealth transfer. Life insurance can provide immediate liquidity upon the death of the insured. Also, liquidity from a life insurance policy is not limited to death since, depending on the type of policy, cash values can also be accessed while alive, should the need arise.*

4. Income Tax Advantages

Finally, having tax-advantaged assets as part of your portfolio is usually a goal. Unfortunately, most investments do not grow tax-deferred (unless they are in a qualified retirement plan or IRA) and even if they do, they may not pass on income tax-free to your loved ones. Life insurance may be a great choice since it can provide both—cash values may grow tax-deferred and when the insured passes away, the death benefits are income tax-free.

**Loans and withdrawals will affect the cash value of the policy and could affect the death benefit. Amounts received on withdrawals and surrenders may be subject to federal income taxes and/or company-imposed surrender penalties.*

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