

CREATIVE PLAN DESIGNS, LTD. NEWSLETTER



Buying Life Insurance When You are Aged 70 and Older

Today's Life Insurance is a whole new world . It was once both very difficult and cost prohibitive to buy life insurance in your later years. However in the past few years, the market for life insurance in the 70+ age group has soared.

Why? Here are a few interesting facts.

People are living longer and have the benefit of excellent medical care. This has generally made life insurance companies welcome applications from this age group. That being said, life insurance has been demonstrated to be one of the best ways to lessen the impact of Estate Tax costs, and to transfer wealth among generations. Life insurance has been shown to be not only death protection, but a potentially very lucrative cash asset (more on that in a minute).

Life insurance premiums have actually gone down in the last few years, making the purchase of additional coverage affordable. Also life insurance purchased when a person was younger, may actually be less expensive today!

Policies that were sold in the past with high interest projections may be in jeopardy of lapse. Life insurance today can be purchased with a guaranteed death benefit to age 120 regardless of the future interest rates or mortality costs.

This opens the opportunity to exchange an old life insurance policy for a new one with greater benefits and provisions.

The question "How do I pay premiums on new life insurance"?

As people live longer and their need for life insurance continues, the increased premiums are difficult to afford. Both the mega wealthy and those mere millionaires are using premium financing to pay the premiums. Today there are numerous options available to fund life insurance premium. Three strategies are available, No Cost, Full Cost and Low Cost.

The No Cost option utilizes non recourse financing. You borrow all premiums from a lender. It is contractually agreed that you will sell the policy to them after the policy is issued. There are numerous variations of this approach, some pay money immediately while others wait for the 2 year incontestability period to end. This approach is subject to some risks, due to life insurance carrier disapproval. The Legality of the transaction is also in question. I would stay away from this kind of financing.

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The Full Cost option is obvious, you pay the full premiums. However you retain control of the entire policy. This means you control the entire beneficiary designation. Most importantly you have the right to continue the policy or settle it in the future. This option can be extremely lucrative.

The Low cost option requires you to have some interest in the policy funding. This can be in the form of partial premium contributions or outside collateral. Here you are actually keeping the policy in force until death. You are sharing the death benefit with the lender. The percentage of the death benefit going to your beneficiaries will vary by program. This is a fully carrier approved program. As such is legal and disclosed.

Another Low cost option is a hybrid program which requires only a promissory note for 25% of the premiums loaned. This option allows you to purchase the needed life insurance with little or no out of pocket costs. You control the length of coverage you desire. You may continue the policy by financing future years of premium, if you want and need the Life Insurance. This option is considered to be the most desirable. It carries the least amount of exposure and cost to the buyer /insured. After the need for the coverage is over, you may sell the policy as you would any other asset you own.

The other opportunity in the life insurance marketplace today is in the area of Life Settlements, selling existing policies that are no longer wanted.

People who have purchased life insurance in the past for business or personal reasons may no longer need the coverage or may not want to pay the premiums. Enter, the Life Settlement. In this case a third party, usually a hedge fund, financial institution or private equity group will purchase the old policy for a percentage of the death benefit.

Although each case is different, a policy owner can potentially receive upwards of 30% of the policies face amount (death benefit) in cash.

Not bad for a policy that in the past would have been surrendered for its minimal cash value, or worse let to lapse without any value!

Please feel free to call our office for additional information.

Sincerely,

Dr. Ronald K. Stair
Creative Plan Designs, Ltd.

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