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### ●● LIFE INSURANCE

It's so easy to defer taxes through IRAs, 401(k)s and the like that you can forget that cash-value life insurance used to be one of the best ways to shelter compounding earnings. Insurance is no longer high on the list of ways to accumulate money, but if you still have a few extra dollars after you've taken advantage of all other shelters and it makes sense to fix your insurance premiums into old age, whole-life still offers some rare tax breaks.

One is fast, tax-free access to cash. If you borrow against the cash value of your policy, you will neither pay taxes on the proceeds nor need to repay the debt on any schedule. (If you die, the loan balance plus accrued interest, usually charged at a low rate, reduces the benefits.) Similarly, if you quit the policy, the accrued interest comes out of the cash value you take away. Moreover, many insurance companies have eased rules on "partial surrenders," or withdrawals. You can reclaim your premiums tax-free, just like reclaiming Roth IRA contributions. You already paid taxes on this money, but

it's there for you to use in an emergency. If you tap earnings in excess of premiums paid, that gain is taxable.

Insurance experts acknowledge that even variable life, which lets you invest in fund-like accounts, can't match regular mutual funds, IRAs or 401(k)s as a savings engine. That's because you're buying insurance protection and paying commissions and other expenses. But you can't borrow from an IRA and you must repay 401(k) loans quickly (usually within five years or immediately upon leaving your job) and must do so with after-tax dollars. And cash values have a guaranteed floor as long as you pay the premiums. So if you want coverage to continue after you're too old or too sick to afford term insurance, whole life fills several holes.

One of the best whole-life deals is from SBLI, better known for selling term insurance at savings banks but now a rapidly expanding full-line life insurer. A healthy 40-year-old man would pay \$110 a month for a \$100,000 policy. Unlike some policies that promise virtually no cash value until the second or third year, SBLI builds value

from the get-go. After one year, you are guaranteed \$1,100 and could have more if the insurer's bond and mortgage investments perform well. SBLI (1-888-GETSBLI; [www.sbli.com](http://www.sbli.com)), which conducts business in 17 states, says it will be in 35 states by the end of the year.

Deferred annuities are technically life insurance, so earnings in them also compound tax-free. Low-cost annuities with fixed rates make sense only if you have a lump sum to invest—more than you can legally put into an IRA or 401(k)—and know you won't need the money for ten years or longer and, preferably, until after you are 59½. In retirement you can transfer the money into an income-paying annuity and still defer tax on your gains. However, annuity payouts beyond those that represent a return of your capital are taxed at ordinary rates.

You can also buy variable annuities, which allow you to channel your money into fund-like accounts. Be aware, though, that sales abuses are common, and annual costs typically run from 2% to 3%. Fidelity, Charles Schwab and Vanguard offer variable annuities with total annual costs of 1% or so.