

**LIFE INSURANCE**

# A Cure for the Credit Crunch?

Whole life offers a ready source of hassle-free credit.

By Bethany A. Wood



**Whole life policies are a bookable asset on the company's balance sheet.**

insured.)

- Whole life is a great insurance planning vehicle to provide funding for estate taxes and charitable gifts, enabling the policyholder to provide a legacy.
- While not guaranteed, dividends can provide a resource from which the policyholder can draw, increase the policy's death benefit and cash value, convert term coverage to whole life, or offset some or all of the premiums due.
- Like other permanent insurance products, whole life offers a tax-deferred build-up of cash values and, generally, a tax-free death benefit.

As always, choosing the right carrier, such as a mutual company with strong to excellent ratings whose structure makes it ideally suited for permanent, dependable solutions, enables the business owner to buy with assurance. □

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**B**usinesses with whole life insurance policies have a potential solution to the current credit crunch. By tapping their policies' cash values, they have access to a ready source of credit without the hassles, delays or even rejections that might accompany attempts to obtain credit through traditional means and often at more favorable rates than banks can offer.

For example, businesses can draw upon their policies' cash value to help meet payroll during lean times or finance capital improvements. And unlike with banks, which can reject loan applications and are increasingly doing so because of the credit crunch, policy owners do *not* need to qualify to borrow the cash value.

**One product, many uses**

Businesses often address strategic business-planning needs, such as buy-sell agreements, key person insurance, succession plans and even benefits for key personnel, by purchasing whole life insurance. Its permanence makes it well-suited for a funding vehicle for long-term needs, which include funding for retirement or for the sale of an owner's share that will occur sometime in the future.

However, a secondary yet extremely valuable feature of whole life is its build-up of cash values. Over the years, these values, which grow on a tax-deferred basis, can become quite sizable, depending on the policy, premiums and dividends received.

Additionally, the policies are a bookable asset on the company's balance sheet. So when a need or opportunity arises, businesses can borrow from their cash values quickly and confidently.

There are at least three ways in which businesses can make good on the loan:

- Choose not to pay it back, in which

case the loan would be deducted from the death benefit. This isn't necessarily advisable since the death benefit likely has an important role in fulfilling a long-range plan, e.g., funding a buy-sell agreement.

- Pay back the loan with interest.
- Let the policy's dividends pay back the loan with interest. Although dividends are not guaranteed, top-tier insurers have traditionally delivered a dividend in most years.

Some businesses are concerned that early-year cash values are typically very low and that they might "lose" their premiums if, soon after they purchase the policy, they need the money back. However, some "high early cash value" whole life insurance policies can address these concerns by enabling policy owners, in an emergency, to get at least 90 percent of their premiums back.

**A tool for planning**

Beyond its business uses, whole life continues to be a great and flexible planning tool that enables business owners individually to adapt to changing times and life circumstances. For example:

- Cash values enhance the ability to plan for future financial needs. They can, for instance, supplement income in retirement or make up income shortfalls when other investments fall short of their mark. (Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the