



John and Katie Winters

360 WEALTH MGT. - LIFE INS. EVALUATION
November 29, 2012

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I/We have received and read this Disclaimer page and understand its contents and, therefore, the limitations of the report. Furthermore, I understand that none of the calculations and presentations of investment returns are guaranteed.

Client(s): _____
John Winters

Date

Katie Winters

Date

Advisor: _____
William Wilkinson, CFP ChFC, CLU, CASL, AIF

Date



Evaluating Existing Life Insurance

💡 Things to Consider . . .

The reasons for which you purchased a life insurance policy may change or may no longer exist. If this is true, before cancelling the policy, consider if the continued investment in the policy would potentially yield a higher rate of return than alternative investment choices. The continued investment in a life insurance policy may provide a competitive rate of return.

Definition: The Internal Rate of Return (IRR) on an investment is the annualized effective compounded return rate that can be earned on the invested capital.

How much IRR would you receive if you were to continue making premium payments into the policy? Continued investment in the life insurance policy might be especially attractive if the policy provides a guaranteed death benefit. Does the alternate investment provide any such guaranteed return?

Definition: Sunk Costs are past costs already incurred which cannot be recovered regardless of future events. As a result, sunk costs should be considered irrelevant to future decision making.

When evaluating the continuing investment in an already purchased life insurance policy you need to consider only the additional investment in the policy from today going forward. Any premium payment already made into the policy is considered a sunk cost and therefore should not be taken into consideration when calculating an internal rate of return.

If an existing policy is owned by an Irrevocable Trust you have already made the decision to leave these assets to heirs. Life insurance provides an income tax-free death benefit making the effective IRR even more attractive. If the policy is properly structured inside of an Irrevocable Trust, the death benefit is also estate tax-free.

It could be quite difficult to find a comparable IRR with typical market rates of return particularly given the extremely low volatility of a guaranteed* life insurance policy.

**Guarantees are dependent upon the claims-paying ability of the insurance company.*

Assumptions and Results

The following assumptions will be used to evaluate the continued investment in an existing permanent life insurance policy.

Life Expectancy: 85
Analyze to Age: 100
Target IRR (%): 5.00%
Side Fund Rate (%): 5.00%
Tax Rate (%): 25.00%
Calculate Opportunity Cost?: No

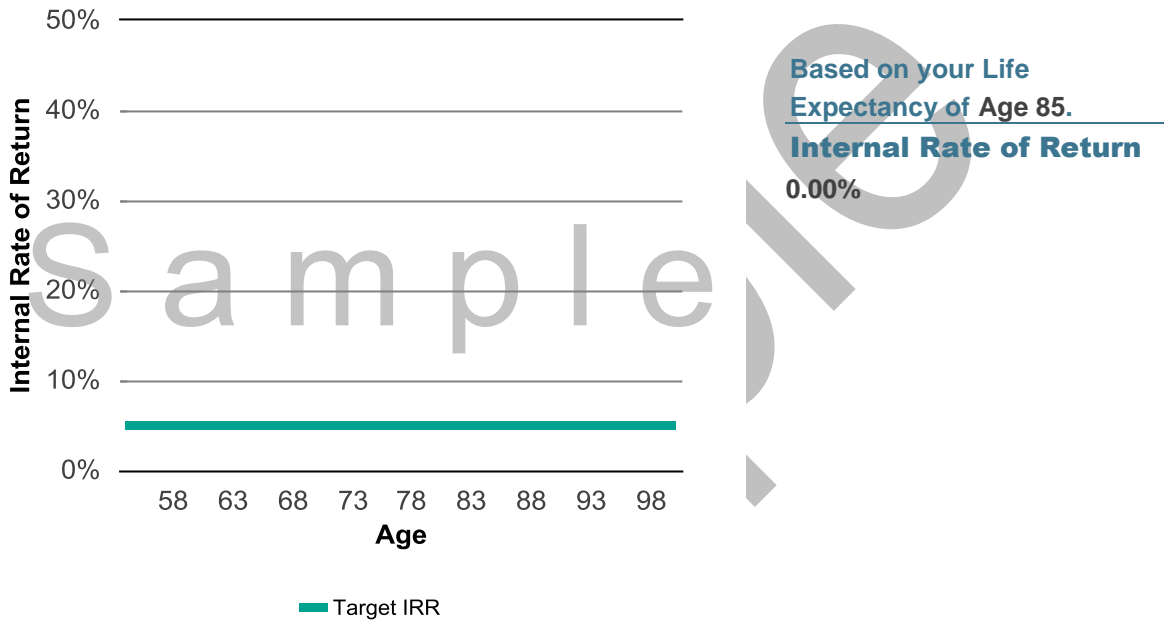
Basis:
Current Age: 54
Death Benefit:
Annual Outlay:
Outlay Term (years):

	Age	Year	Annual Outlay	Death Benefit	IRR
Current Year	54	1	\$0	\$0	0.00%

Internal Rate of Return

↻ Evaluate Existing Life Insurance

The table below shows the Internal Rate of Return (IRR) you would receive over the years if you were to continue making premium payments into the existing policy.



	Age	Year	Annual Outlay	Death Benefit	IRR
Current Year	54	1	\$0	\$0	0.00%

Keep the Policy

The table below provides details on IRR each year the existing life insurance policy is kept in force.

Life Expectancy: Age 85		Target IRR (5.00%): Age 53	
Policy: N/A	Dividend Option: N/A	Riders: N/A	Initial Death Benefit: \$0

Year	Age	Annual Outlay	Total Outlay	Death Benefit	IRR
1	54	\$0	\$0	\$0	0.00%
2	55	\$0	\$0	\$0	0.00%
3	56	\$0	\$0	\$0	0.00%
4	57	\$0	\$0	\$0	0.00%
5	58	\$0	\$0	\$0	0.00%
6	59	\$0	\$0	\$0	0.00%
7	60	\$0	\$0	\$0	0.00%
8	61	\$0	\$0	\$0	0.00%
9	62	\$0	\$0	\$0	0.00%
10	63	\$0	\$0	\$0	0.00%
11	64	\$0	\$0	\$0	0.00%
12	65	\$0	\$0	\$0	0.00%
13	66	\$0	\$0	\$0	0.00%
14	67	\$0	\$0	\$0	0.00%
15	68	\$0	\$0	\$0	0.00%
16	69	\$0	\$0	\$0	0.00%
17	70	\$0	\$0	\$0	0.00%
18	71	\$0	\$0	\$0	0.00%
19	72	\$0	\$0	\$0	0.00%
20	73	\$0	\$0	\$0	0.00%
21	74	\$0	\$0	\$0	0.00%
22	75	\$0	\$0	\$0	0.00%
23	76	\$0	\$0	\$0	0.00%
24	77	\$0	\$0	\$0	0.00%
25	78	\$0	\$0	\$0	0.00%
26	79	\$0	\$0	\$0	0.00%
27	80	\$0	\$0	\$0	0.00%
28	81	\$0	\$0	\$0	0.00%
29	82	\$0	\$0	\$0	0.00%
30	83	\$0	\$0	\$0	0.00%
31	84	\$0	\$0	\$0	0.00%
32	85	\$0	\$0	\$0	0.00%
33	86	\$0	\$0	\$0	0.00%
34	87	\$0	\$0	\$0	0.00%
35	88	\$0	\$0	\$0	0.00%

Year	Age	Annual Outlay	Total Outlay	Death Benefit	IRR
36	89	\$0	\$0	\$0	0.00%
37	90	\$0	\$0	\$0	0.00%
38	91	\$0	\$0	\$0	0.00%
39	92	\$0	\$0	\$0	0.00%
40	93	\$0	\$0	\$0	0.00%
41	94	\$0	\$0	\$0	0.00%
42	95	\$0	\$0	\$0	0.00%
43	96	\$0	\$0	\$0	0.00%
44	97	\$0	\$0	\$0	0.00%
45	98	\$0	\$0	\$0	0.00%
46	99	\$0	\$0	\$0	0.00%
47	100	\$0	\$0	\$0	0.00%

Sample

Surrender the Policy

The table below provides details on surrendering the existing life insurance policy. The policy is assumed to be surrendered this year and the subsequent premiums are assumed to be invested in a side fund.

Life Expectancy: Age 85	Annual Tax Rate: 25.00%	Side Fund Rate: 5.00%	After Tax Rate: 3.75%
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Year	Age	Annual Outlay	Total Outlay	Side Fund Balance BOY	After Tax Growth	Side Fund Balance EOY
1	54	\$0	\$0	\$0	\$0	\$0
2	55	\$0	\$0	\$0	\$0	\$0
3	56	\$0	\$0	\$0	\$0	\$0
4	57	\$0	\$0	\$0	\$0	\$0
5	58	\$0	\$0	\$0	\$0	\$0
6	59	\$0	\$0	\$0	\$0	\$0
7	60	\$0	\$0	\$0	\$0	\$0
8	61	\$0	\$0	\$0	\$0	\$0
9	62	\$0	\$0	\$0	\$0	\$0
10	63	\$0	\$0	\$0	\$0	\$0
11	64	\$0	\$0	\$0	\$0	\$0
12	65	\$0	\$0	\$0	\$0	\$0
13	66	\$0	\$0	\$0	\$0	\$0
14	67	\$0	\$0	\$0	\$0	\$0
15	68	\$0	\$0	\$0	\$0	\$0
16	69	\$0	\$0	\$0	\$0	\$0
17	70	\$0	\$0	\$0	\$0	\$0
18	71	\$0	\$0	\$0	\$0	\$0
19	72	\$0	\$0	\$0	\$0	\$0
20	73	\$0	\$0	\$0	\$0	\$0
21	74	\$0	\$0	\$0	\$0	\$0
22	75	\$0	\$0	\$0	\$0	\$0
23	76	\$0	\$0	\$0	\$0	\$0
24	77	\$0	\$0	\$0	\$0	\$0
25	78	\$0	\$0	\$0	\$0	\$0
26	79	\$0	\$0	\$0	\$0	\$0
27	80	\$0	\$0	\$0	\$0	\$0
28	81	\$0	\$0	\$0	\$0	\$0
29	82	\$0	\$0	\$0	\$0	\$0
30	83	\$0	\$0	\$0	\$0	\$0
31	84	\$0	\$0	\$0	\$0	\$0
32	85	\$0	\$0	\$0	\$0	\$0
33	86	\$0	\$0	\$0	\$0	\$0
34	87	\$0	\$0	\$0	\$0	\$0
35	88	\$0	\$0	\$0	\$0	\$0

Year	Age	Annual Outlay	Total Outlay	Side Fund Balance BOY	After Tax Growth	Side Fund Balance EOY
36	89	\$0	\$0	\$0	\$0	\$0
37	90	\$0	\$0	\$0	\$0	\$0
38	91	\$0	\$0	\$0	\$0	\$0
39	92	\$0	\$0	\$0	\$0	\$0
40	93	\$0	\$0	\$0	\$0	\$0
41	94	\$0	\$0	\$0	\$0	\$0
42	95	\$0	\$0	\$0	\$0	\$0
43	96	\$0	\$0	\$0	\$0	\$0
44	97	\$0	\$0	\$0	\$0	\$0
45	98	\$0	\$0	\$0	\$0	\$0
46	99	\$0	\$0	\$0	\$0	\$0
47	100	\$0	\$0	\$0	\$0	\$0

Sample

Keep vs. Surrender Comparison

The table below compares the details for keeping and surrendering the existing life insurance policy. The policy is assumed to be surrendered this year and the subsequent premiums are assumed to be invested in a side fund.

Life Expectancy: Age 85		Target IRR(5.00%): Age 53	
Annual Tax Rate: 25.00%		Side Fund Rate: 5.00%	After Tax Rate: 3.75%
Policy: N/A	Dividend Option: N/A	Riders: N/A	Initial Death Benefit: \$0

		Surrender Policy				Keep Policy		
Year	Age	Annual Outlay	Total Outlay	Side Fund Balance BOY	After Tax Growth	Side Fund Balance EOY	Death Benefit	IRR
1	54	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
2	55	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
3	56	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
4	57	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
5	58	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
6	59	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
7	60	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
8	61	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
9	62	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
10	63	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
11	64	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
12	65	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
13	66	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
14	67	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
15	68	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
16	69	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
17	70	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
18	71	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
19	72	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
20	73	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
21	74	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
22	75	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
23	76	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
24	77	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
25	78	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
26	79	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
27	80	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
28	81	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
29	82	\$0	\$0	\$0	\$0	\$0	\$0	0.00%

Surrender Policy**Keep Policy**

Year	Age	Annual Outlay	Total Outlay	Side Fund	After	Side Fund	Death	IRR
				Balance BOY	Tax Growth	Balance EOY	Benefit	
30	83	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
31	84	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
32	85	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
33	86	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
34	87	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
35	88	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
36	89	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
37	90	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
38	91	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
39	92	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
40	93	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
41	94	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
42	95	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
43	96	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
44	97	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
45	98	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
46	99	\$0	\$0	\$0	\$0	\$0	\$0	0.00%
47	100	\$0	\$0	\$0	\$0	\$0	\$0	0.00%

Surrender charges may apply to both new and in-force life insurance policies. The purchase of a new policy may be subject to the commencement of a new surrender period, lose existing benefits, or be subject to increased fees and charges. In addition, income taxes may apply if an existing policy is surrendered prematurely.

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