NAVIGATOR

SEASCAPE CAPITAL MANAGEMENT

SEPTEMBER 2017

INSIDE THIS ISSUE:

Seascape Capital Management, LLC

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This edition of the Navigator is all about Life Insurance. How your life insurance is structured will play a significant role in your overall financial plan. If you haven't reviewed your life insurance recently, now is the time to do so. Seascape is here to guide you in evaluating what you currently have or what you may need.

As always, please reach out to us with any questions, concerns, or just to catch up!

Life Insurance: Questions to Consider

Do you have life insurance? If so, what kind?

Do you own it or is the policy through your employer?

When was the last time you requested an inforce illustration?

Over the years, we've consistently seen life insurance viewed by many as a low priority on their list of expenses. However, life insurance plays an important role in effective financial planning and, like the rest of your financial assets should be reviewed periodically. Often times, individuals aren't sure what kind of life insurance policy they have, or if the policy they think they had is still in place. Maybe you have a level term policy that is about to lapse, and you aren't sure if it should. Alternatively, it's possible you don't need your insurance policy anymore but are still paying the premiums. Perhaps, you purchased your insurance policy as an investment-substitute, but haven't really monitored it to see if it's meeting its intended goals. Also, if you live in a state with an estate tax, like Massachusetts, your policy might be included in your estate and subject to a significant state estate tax.

All of these factors and many others are important. We can help navigate the topic of life insurance for you. Please let us know if you have questions or want to discuss.

Term vs. Whole Life

Is term life insurance appropriate for you?

Term life insurance is "pure" insurance. It offers protection only for a specific period of time. If you die within the time period defined in the policy, the insurance company will pay your beneficiaries the face value of your policy.

Term insurance differs from the permanent forms of life insurance, such as whole life, universal life, and variable universal life, which generally offer lifetime protection as long as premiums are kept current. And, unlike other types of life insurance, term insurance does not accumulate cash value. All the premiums paid are used to cover the cost of insurance protection, and you don't receive a refund at the end of the policy period. The policy simply expires.

Term life insurance is often less expensive than permanent insurance, especially when you are younger. It may be appropriate if you want insurance only for a certain length of time, such as until your youngest child finishes college or you are able to afford a more permanent type of life insurance. The main drawback associated with all types of term insurance is that premiums increase every time coverage is renewed. The reason is simple: As you grow older, your chances of dying increase. And as the likelihood of your death increases, the risk that the insurance company will have to pay a death benefit goes up. Unfortunately, term insurance can become too expensive right when you need it most — in your later years.

Several variations of term insurance do allow for level premiums throughout the duration of the contract. You may be able to obtain 5-, 10-, 20-, or even 30-year level term, or level term payable to age 65. An advantage of renewable term life insurance is that it is usually available without proof of insurability.

Life insurance can be used to achieve a variety of objectives. The cost and availability of the type of life insurance that is appropriate for you depend on factors such as age, health, and the type and amount of insurance you need. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have contract limitations, fees, and charges, which can include mortality and expense charges.

Is whole life insurance appropriate for you?

When you purchase a whole life policy, you traditionally pay a fixed premium for as long as you live or for as long as you keep the policy in force. In exchange for this fixed premium, the insurance company promises to pay a set benefit upon your death.

In addition to providing a death benefit, a whole life policy can build cash value, which accumulates tax deferred. Part of the premium pays for the protection element of your policy, while the remainder is invested in the company's general portfolio. The insurance company pays a guaranteed* rate of return on the portion of your premium that is in its investment portfolio, building up the value of your policy. As the cash value grows, the risk for the insurance company declines.

Although the cash value in your policy is "your" money, you can't simply withdraw it as needed, as you would cash from a savings account; but you do have limited access to your funds. You can either surrender the policy for its cash value or take the needed funds as a loan against the policy.

Loans and withdrawals reduce the policy's cash value and death benefit and increase the chance that the policy may lapse. If the policy lapses, matures, is surrendered, or becomes a modified endowment, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distributions of policy cash values.

In addition to charging interest for loans against a policy, the insurance company may pay a lower rate of return for the portion of your cash value that you borrow. However, loans against the value of an insurance policy are generally not taxable and can provide the cash to help with unexpected expenses.

The cash value of a life insurance policy accumulates tax deferred. If you surrender the policy, you'll incur an income tax liability for those funds that exceed the premiums you have paid.

Note: *Guarantees are contingent on the financial strength and claims-paying ability of the issuing company.*

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We hope you found this topic interesting. If there is anything you'd like to hear more about, let us know!

-The Seascape Team

Understanding Insurance Company Illustrations

A life insurance policy illustration is a text-and-graphics presentation of how a life insurance policy will perform at a selected interest rate, with an assumed number of predetermined premium payments and a "current" and "guaranteed" cost of insurance and expenses. A life insurance policy illustration is not a legal document--legal obligations are contained in the policy itself.

What does the illustration show?

A policy illustration shows items such as policy premiums, death benefits, cash values, and other information that can affect your cost of buying insurance. Some of the figures in the illustration are guaranteed, while others are projections and may depend on the future financial results of the insurance company. The illustration shows how your policy would perform in the future under a set of assumptions.

Guaranteed items

The policy illustration contains some figures that are guaranteed. The insurance company will honor these figures regardless of the policy's future financial experience. What is guaranteed will depend on the type of life insurance policy. A whole life insurance policy will guarantee the premium, cash value, and death benefit. A universal life insurance policy will guarantee a minimum interest credit on the cash value. A variable universal life insurance policy will guarantee the death benefit, provided a maximum premium is paid. In all cases, the company will guarantee a maximum that it will charge for expenses and mortality charges. (Keep in mind that guarantees are based on the claims-paying ability of the issuing insurance company.)

Nonguaranteed items

The policy's performance projections are based on the insurance company's assumptions about future performance many years into the future. Like any other assumption, actual results will be more or less favorable, and the longer the time period being projected, the greater the likelihood of variance from the predicted values. The policy pricing factors that contain elements of uncertainty again depend on the type of life insurance policy. They include future dividend rates on whole life policies that are determined by the performance results of the company's investment portfolio, the interest credited to a universal life policy cash value, and performance of the pool of subaccounts available to choose from in a variable life insurance policy. In all cases, the company's "current" future expenses and mortality costs will be subject to change.

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