

Whole Life Insurance as a Business Asset



Many businesses need life insurance on owners or employees to provide key person protection and/or fund buy-sell agreements. Companies often choose term life insurance to meet this need, simply because of its low cost (i.e., premiums). However, for businesses with strong cash flow, whole life insurance can be an attractive alternative to term insurance.

Unlike term life insurance, whole life offers guaranteed cash values and permanent life insurance protection based on the payment of guaranteed level premiums. Policy dividends, although not guaranteed, can be applied to purchase additional paid-up whole life insurance, increasing the total policy cash value and death benefit over time.

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MassMutual's Whole Life Legacy High Early Cash ValueSM (Legacy HECV) life insurance policy is a limited payment whole life policy with level premiums payable to age 85, after which no additional premiums are due. Legacy HECV has been developed specifically for businesses who want to provide selective benefit programs for their key employees and executives. The policy provides a higher total cash value in the early policy years than traditional whole life insurance policies. In fact, the first year guaranteed cash value of a Legacy HECV policy can be as much as 90% of the first year annual premium. The higher cash values help to minimize the impact of premiums on earnings, since earnings may affect the value of the business and/or its ability to borrow or secure bonding.

Consider some of the advantages of purchasing a Legacy HECV policy over buying term life insurance:

- Term life insurance premiums are a pure expense to the business with no cash values to offset the annual charge to earnings.
- If a business purchases a Legacy HECV policy, the policy cash value is a balance sheet asset for the company and annual increases in the policy cash value will help offset the impact that premium payments have on company earnings each year.
- The cash value of the Legacy HECV policy accumulates on a tax-deferred basis and can be accessed at any time and for any reason on a tax-advantaged basis through partial surrenders up to cost basis and/or policy loans.¹
- The policy may ultimately be distributed to the insured (owner or employee) as a benefit, or the policy cash value may be used by the business to help fund the purchase of a retiring owner's interest in the business.

Overall, purchasing a Legacy HECV policy instead of term life insurance may offer substantial benefits to both the business and its owners.

¹ Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty.

Access to cash values through borrowing or partial surrenders will 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 insured.

The decision to purchase life insurance should be based on long-term financial goals and the need for a death benefit. Life insurance is not an appropriate vehicle for short-term savings or short-term investment strategies. While the policy allows for loans, you should know that there may be little to no cash value available for loans in the policy's early years

Whole Life Legacy High Early Cash Value (WL-2007 and WL-NC-2007) is a level premium, participating, permanent life insurance policy issued by Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001

