



# Ashwood Advisors, LLC®

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Truth, Knowledge, Experience

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## Making the Most of Life Insurance Tax Benefits

Presented by *Stephen Geremia*

Hi Everyone,

In three months we will have a new president. Unfortunately Americans' distaste for both major party candidates is record breaking. Taxation and deregulation are the two major points of debate and how voters feel about both may be the deciding factors for determining who ultimately wins the presidency.

Sincerely,  
Steve Geremia

The primary purpose of life insurance is to provide financial security for families and businesses. But did you know that it also offers a number of tax advantages?

### An income tax-free death benefit

Generally, your beneficiaries won't have to pay income tax on the death benefits they receive from your life insurance policy.

But there is one caveat: If the policy transferred from one owner to another, it can trigger the transfer-for-value rule, which could negate the policy's tax-exempt status. This usually happens when a policy is transferred between stockholders to fund a buy-sell agreement. There are five exceptions to the transfer-for-value rule, though, that allow you to retain the tax-free death benefit:

Transfer to the insured on the policy

Transfer to the partner of the insured (but not to a co-stockholder)

Transfer to a partnership in which the insured is a partner

Transfer to a corporation in which the insured is a stockholder or officer

Transfer in which the recipient's basis is determined by the transferor's basis (e.g., a gift)

Although life insurance is generally income tax free, it is not necessarily *estate tax free*. The taxable value of life insurance in your estate is based on the death benefit. If you transfer life insurance to an irrevocable trust or to another person, it will not be included in your taxable estate once three years have elapsed since the transfer. That transfer of life insurance may trigger gift taxes, however.

### In This Issue:

- **Making the Most of Life Insurance Tax Benefits**
- **Wedding Finances: A Survival Guide**

### Tax-deferred growth of policy cash values

As interest and dividends are added to the cash value of your life insurance policy, the amounts are generally not subject to taxes until you surrender the policy.

Some types of life insurance, such as *whole life* policies, pay dividends to the policy owner. These are not dividends in the usual investment sense; instead, they are considered a return of a portion of your annual premium.

Dividends from whole life insurance can be used to reduce premiums or to buy additional insurance, neither of which triggers taxes.

Dividends taken as cash are not taxable unless the amount of the dividend exceeds

Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas—Paul Samuelson

Unlike whole life insurance, *universal life* policies do not produce dividends. Instead, interest is applied to the cash values without an immediate income tax impact.

In addition, you can change the type of life insurance product, or your insurance carrier, without triggering a taxable gain. A Section 1035 exchange permits the policy owner to transfer the cash value of an existing policy to a newly issued policy. You can also transfer life insurance cash values to an annuity tax free.

### **Tax-advantaged withdrawals from policy cash values**

Another benefit of life insurance is that it allows you to withdraw your tax basis from your policy before recognizing any gain. This is often called FIFO tax treatment, or “first in, first out.” A gain is defined as the amount by which the cash value exceeds the premiums paid into the policy. Premiums for some riders do not qualify as basis, and dividends received in cash generally reduce your basis.

**Policy loans.** You can also access your cash values through policy loans, which offer several potential advantages:

You do not have to qualify financially for a policy loan.

You can elect to defer interest and principal repayments.

If you die before repaying the loan, it is repaid from your death benefit.

Although policy loans are an attractive benefit, you should not take one without careful planning. If there are outstanding loans at the death of the insured, cash values and death benefits will be reduced. When you take a policy loan, you are borrowing from the insurance company’s general fund and putting up your policy’s cash value as collateral. If you elect to defer your loan interest, it will be added to the next year’s loan principal. If unwatched, your loan may exceed the policy’s maximum collateral limit. At that time, if you choose not to make a repayment, the insurance company will recover the amount due from your cash values, potentially resulting in termination of your life insurance. At the lapse of your policy, all taxes on the deferred policy gain are due.

If you plan to use your policy cash values to supplement your retirement, be sure you understand the loan management options your policy offers. To help manage policy lapses caused by loans, some companies offer a feature known as “overloan protection.”

### **Making the most of life insurance tax benefits**

Of course, there are limits to the amount you can invest in life insurance policies. To discourage abuse of life insurance as a tax shelter, Congress has enacted certain premium limits. The premium limits differ with

**Intoxication**— the feeling of euphoria at getting a refund from the IRS, which lasts until you realize it was your money to start with.—From a Washington Post word contest

## **Wedding Finances: A Survival Guide**

Presented by *Stephen Geremia*

With the average cost of a wedding at an [all-time high of more than \\$31,000](#), the tradition of the bride’s family covering all of the expenses is becoming a thing of the past. Today, the couple themselves and the groom’s family often share the costs of hosting the event. And it’s not just the engaged couple and their families who bear a financial burden: between travel, lodging, and attire, wedding guests can also rack up their fair share of expenses.

Fortunately, with proper planning, it's possible to keep wedding costs under control. Here are a few pointers for enjoying the day without depleting your savings—whether you're footing the bill or simply attending the event.

### **If you're planning a wedding**

**Keep tabs on unexpected expenses.** Asking the right questions up front can help you avoid unpleasant surprises as you review the final bill. Before signing any contracts, be sure you understand how the following items will be handled:

**Using outside professionals.** Already have a florist or baker in mind? Depending on your reception location, you may face an additional fee if you hire outside vendors. Check to see if the wedding venue you've chosen has a preferred or required vendor list.

**Cake-cutting and corkage fees.** Be sure to read the fine print here. Event venues have been known to charge \$2–\$5 per guest for cutting the cake and \$1.50–\$3.00 for every bottle the staff opens. These fees may not be verbally communicated, appearing only in the written contract.

**Overtime.** Overtime pay for wait staff, musicians, and photographers can add up quickly. Be realistic about how long your party may last, and negotiate those rates with vendors and the venue itself *before* the event. Some will be flexible and help you keep the party going, but without an agreement in place, you could destroy your budget in the course of an extra half hour.

**Taxes and gratuities.** It's all too easy to overlook these expenses as you set your budget. As a best practice, assume that taxes and gratuities are not included and allocate a sufficient portion of your budget to covering these costs.

**Negotiate hotel rates and amenities.** As a courtesy to your guests, you may wish to reserve a block of hotel rooms for the night or weekend of the wedding. The guests still pay for their own accommodations, but by reserving rooms at several different price points, you may be able to take some of the sting out of the expense. Be sure to do this early, however; during peak times of year, hotels fill up quickly, limiting your negotiating power.

Besides discussing the room cost itself, don't be afraid to ask the hotel for amenities you'd like to provide to your guests. Consider the following extras:

- Free Wi-Fi
- Shuttle service to and from the wedding
- Morning-after brunch
- Airport transportation

### **If you're a wedding guest**

**Spend wisely.** According to [American Express](#), Americans will attend an average of three weddings this year—spending more than \$700 at each. That number jumps to over \$900 for millennials who are members of the wedding party. If you have a wedding (or multiple weddings!) on your calendar, try these tips for making the most of your money:

**Travel.** Attending a destination or out-of-state ceremony? Why not extend your stay and enjoy a mini vacation? Traveling midweek (i.e., on Tuesdays or Wednesdays) may help you save on airfare.

**Lodging.** Don't wait too long to book. Hotels usually hold rooms only up to a certain date, at which point you'll likely have to pay regular rates (or be left out in the cold if rooms are booked up).

### If you're contributing to your adult child's wedding

**Be aware of gifting issues.** For 2016, you can give \$14,000 per person under the annual gift tax exclusion. If you give an amount over \$14,000, you will need to file a gift tax return. This will also reduce your lifetime exclusion amount (currently \$5.45mm). To prevent this, avoid writing large checks directly to the couple. If you plan to cover certain aspects of the wedding, it may make sense to pay the vendor directly rather than give money to the couple.

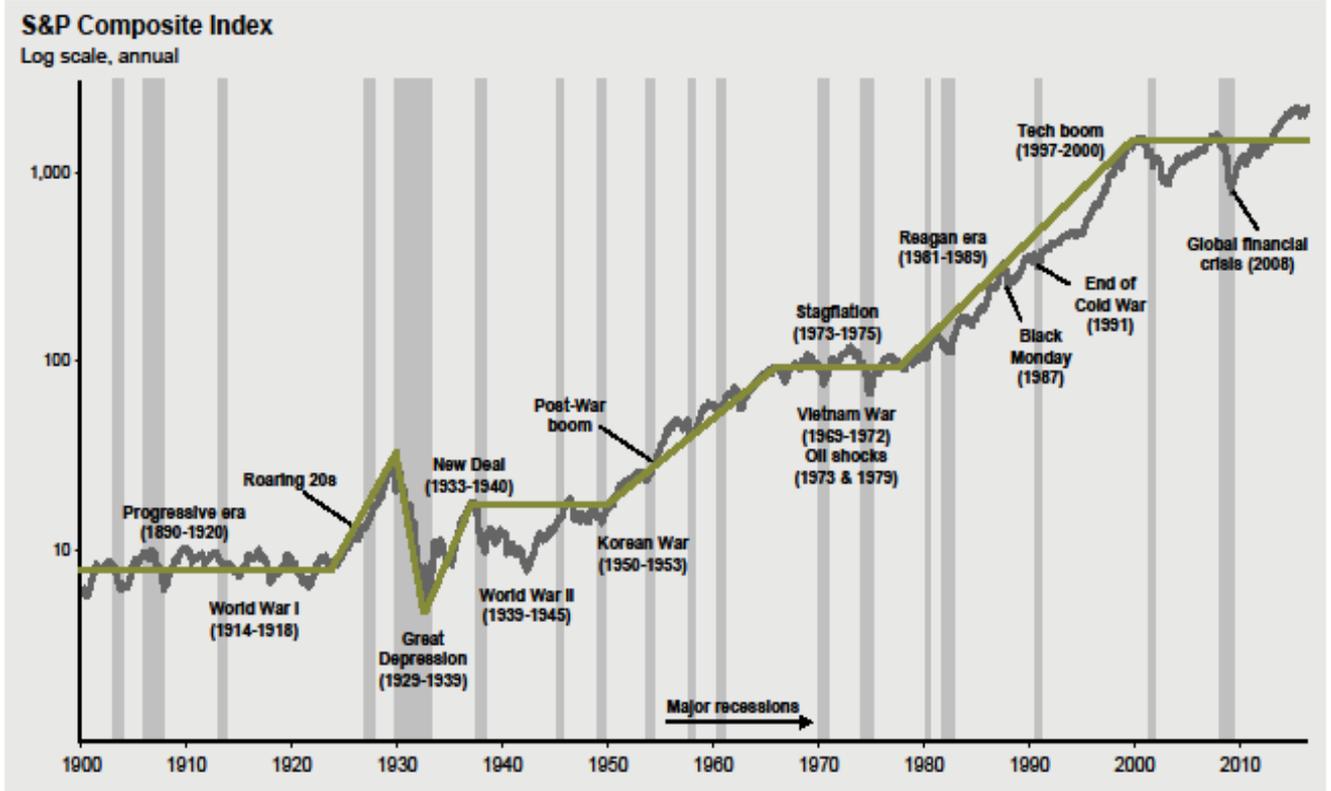
### Plan ahead for a stress-free celebration!

A wedding should be a joyous occasion for connecting with family and friends—not a time to worry about overspending. Although wedding-related expenses may take your breath away, with a bit of careful planning, they don't have to derail your budget.

## Stock market since 1900

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Equities



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.  
Data shown in log scale to best illustrate long-term index patterns.  
Past performance is not indicative of future returns. Chart is for illustrative purposes only.  
Guide to the Markets – U.S. Data are as of June 30, 2016.

J.P.Morgan  
Asset Management

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