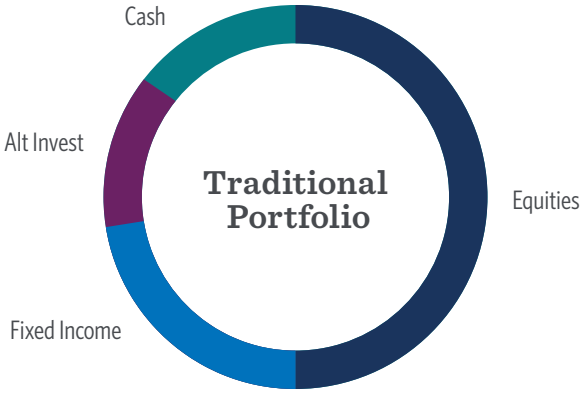
LIFE INSURANCE AS AN ASSET CLASS

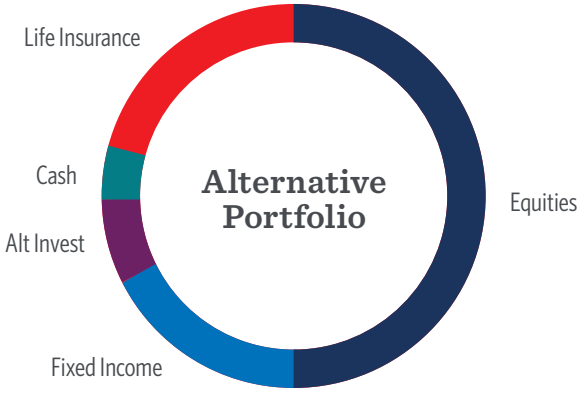
Your circumstances are personal and unique to you. Perhaps you have maxed out your allowable contributions into your retirement accounts and have a need for insurance? Maybe you are looking for alternative products to complement and diversify your financial portfolio? In any case, the strategic use of life insurance as part of your overall financial strategy may help you achieve your goals and objectives.

INVESTMENT MANAGEMENT

A degree of uncertainty always exists around future tax law, the global financial marketplace, and the general state of the economy. While life insurance is traditionally associated with postmortem expense management and income replacement strategies, permanent cash value life insurance can be leveraged as part of a comprehensive overall financial strategy to potentially address some of these uncertainties.

The potential for cash value growth relative to a low-risk profile makes it a potential accumulation and preservation alternative. Life insurance may be excluded when taking a financial inventory. Even though it may be an asset someone owns, it may be excluded in the thought of the "traditional portfolio." To get a better understanding of someone's financial picture, it should not be excluded, as it can be an important element for supplemental income or cash value accumulation.





TRANSAMERICA®

ADVANTAGES OF PERMANENT LIFE INSURANCE AS AN ASSET CLASS

PREDICTABLE

Permanent life insurance policies may offer a guaranteed* rate of return, a guaranteed death benefit, and a level premium over the life of the policy. The predictable nature of these key financial elements makes it easier to create a plan to address projected future needs. The cash value component of indexed universal life policies can be attributed to a specified interest rate or credited with excess index interest based in part on a weighted average of changes to a financial index such as the S&P 500®, with preestablished floors and ceilings. Having a defined interest rate or predetermined floors and ceilings aids in the process of management, coordination, and diversification of an overall financial plan.

NON-CORRELATED

Stock and bond markets are unique and markedly different in many ways, yet they share one common and substantial trait: volatility. Additionally, securities in general are highly correlated, with returns that tend to move up and down with similar trajectories. Permanent cash value life insurance may provide a hedge against market volatility as well as significant global economic events that can adversely affect the financial markets. The cash accumulation component of a life policy bears a nontraditional risk profile that reacts differently than the stock and bond markets to prevailing political, economic, and financial market conditions. By this virtue, incorporating life insurance in conjuction with an investment portfolio allows an investor to manage risk and mitigate volatility. It is important to note that this attribute is only for policies that are not invested or linked to a market index. Those policies are market based and would be correlated.

TAX EFFICIENT

Investments in a taxable brokerage account often generate a tax burden as the portfolio grows, creating tax drag and reducing the return and total value of the portfolio. But the cash value component of a permanent life insurance policy grows tax-deferred, which permits the cash value to compound and accumulate. Moreover, distributions from the cash value non-Modified Endowment Contract (MEC) policy are generally treated for tax purposes as first-in, first-out (FIFO), which means that a policyholder may take distributions consisting of non-MEC tax-free return of their premium, minimizing taxable income in a given year. Loans also may be available from cash value policies which are generally received tax-free. Finally, life insurance death benefits are generally received free of federal income tax.

HEDGE AGAINST SEQUENCE OF RETURNS RISK

Timing is everything in retirement. Sequence of returns risk is a phenomenon in which an investor receives lower returns during the distribution phase of retirement. Specifically, negative returns in the early years of retirement leave a retiree vulnerable to running out of money. If the loss is significant enough, for example, it may not be possible for the portfolio to recover. A potential solution is to reduce or even avoid taking distributions in a declining market, but this may not be practical or even possible. An alternate potential solution is a policy loan using the cash value of a life insurance policy as collateral. The advantage to this strategy is reducing the burden on the overall portfolio. Even though sequence of returns risk still exists, loans from a life insurance policy may act as a buffer to avoid withdrawals in declining markets. This can cause a reduction in policy value and death benefit.

LIFE SETTLEMENTS

A life settlement is an alternative method of accessing the value of a life insurance policy through an outright sale and assignment to an alternate party. Upon death, the contract owner (life settlement company) will receive the death benefit.

Typically, a settlement provider purchases the policy from the policy owner in cash for a sum that is greater than the policy's cash value, but less than the policy's face value. The higher cash value sum received from the settlement provider can be used to cover expenditures incurred for emergencies, medical care, or any other costs.

* Any guarantees are based on the claims-paying ability of the issuing company.
The S&P 500 Index is a product of S&P Dow Jones Indices LLC ("SPDJI"), and has been licensed for use by the company. Standard & Poor's®, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by the company. This policy is not sponsored, endorsed, sold, or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of purchasing this product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

BREAKING DOWN THE DIFFERENCES BETWEEN TRADITIONAL SECURITIES AND CASH VALUE LIFE INSURANCE

	During Life			At Death
TAXABLE ACCOUNT	Subject to market volatility	Subject to annual income and capital gains taxes	ACCESS: Taxable withdrawals	Step-up in basis, then subject to annual taxation
CASH VALUE LIFE INSURANCE	Predictable returns	Tax-deferred	ACCESS: FIFO withdrawals, tax-free loans*, life settlements	Federal income tax-free death benefit

It is important to note that the comparison above is only to illustrate the difference in federal tax treatment of life insurance versus a taxable account. It must also be noted that there are vast differences between life insurance and other financial assets. These would include the features and death benefits associated with a life policy. The fees and costs associated with life insurance and other types of financial accounts are going to vary and should be a consideration beyond the scope of this tax comparison.

* If a policy is fully surrendered, allowed to lapse, or exchanged for another life insurance, annuity, or long term care policy, however, loans are taxable to the extent that the cash value exceeds the owner's tax basis in the contract.

TRANSAMERICA®

Contact your Transamerica sales partner to learn more.

Visit: transamerica.com

For Financial Professional Use Only.

Neither Transamerica nor its agents or representatives may provide tax, investment, or legal advice. Anyone to whom this material is promoted, marketed, or recommended should consult with and rely on their own independent tax, financial, and legal professionals regarding their particular situation and the concepts presented herein.

Transamerica Resources, Inc. is an Aegon company and is affiliated with various companies which include, but are not limited to, insurance companies and broker-dealers. Transamerica Resources, Inc. does not offer insurance products or securities. The information provided is for educational purposes only and should not be construed as insurance, ERISA, tax, investment, legal, or financial advice or guidance. Please consult your personal independent professionals for answers to your specific questions.

2094973 06/22