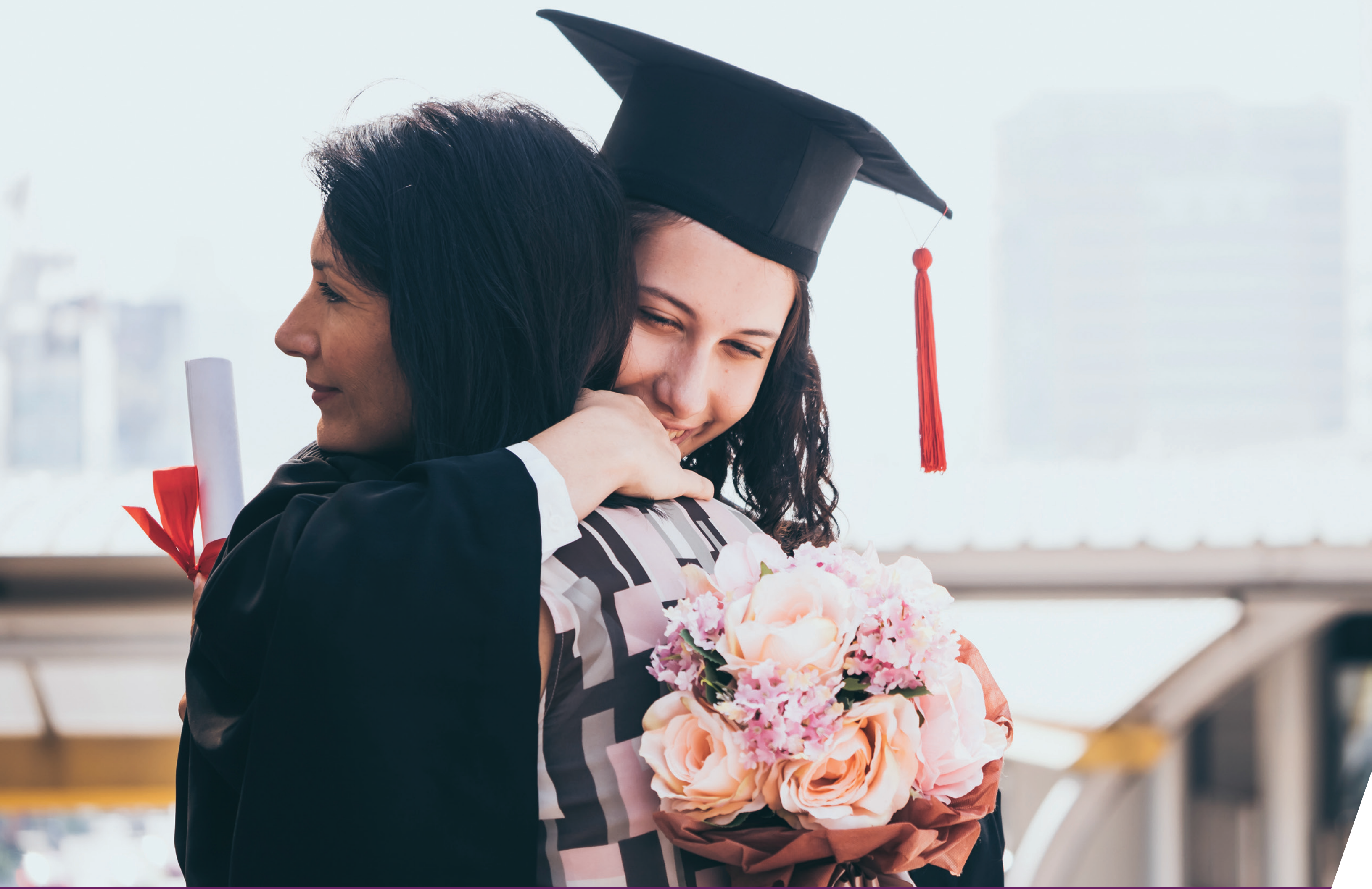

EDUCATION PLANNING WITH LIFE INSURANCE

The potential costs for college can be intimidating and it can be overwhelming for families to figure out their best savings strategy. The average cost of college in the United States has tripled in the last 20 years.[1] Families spent an average of $26,373 on college in the 2020-21.[2] There is a real need for long-term savings strategies to help parents and their children minimize student loan debt.

Fortunately, there are several options that families have when it comes to saving for college. Accounts like 529 plans and Coverdell Education Savings Accounts (CESAs) are commonly used for education expenses where any savings shortfall can be supplemented with financial aid. Another option that is often overlooked is permanent life insurance.

[1] "Average Cost of College & Tuition," Education Data Initiative, March 28, 2022

[2] "How America Pays for College 2021," Sallie Mae, May 2021

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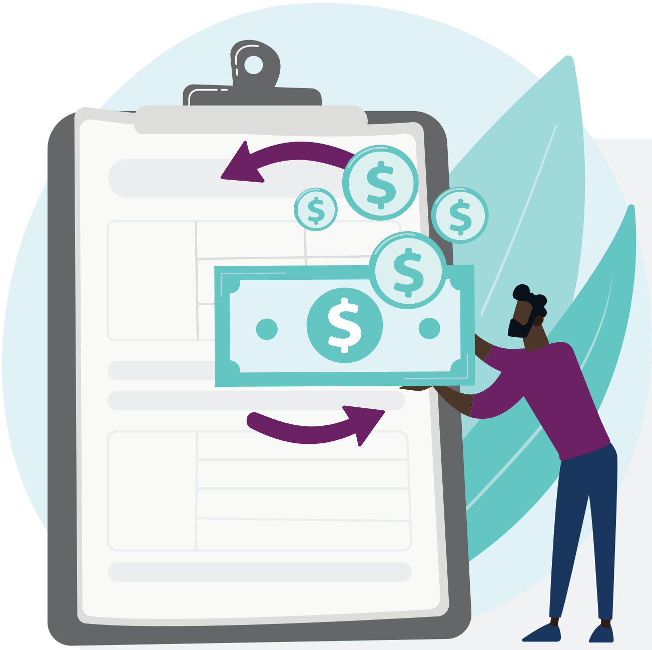
COMMON WAYS TO SAVE FOR EDUCATION

- 529 Savings Plan
- 529 Prepared College Tuition Plan
- Coverdell Education Savings Account

HOW DO 529s AND COVERDELLs HELP FAMILIES SAVE FOR COLLEGE?

A 529 plan is a qualified tuition program that allows an account owner to save money in a tax-favored manner to pay for K-12 and college tuition costs. Contributions, up to a current qualified limit, in these accounts grow tax deferred, and funds, including gains, can be withdrawn free of federal tax if used to pay for qualified education expenses. This option does have a drawback. If a beneficiary decides not to attend college, withdrawals for non-education expenses are subject to a 10% penalty and gains are included in the account owner's income.

Coverdell ESAs are like a 529 plan where contributions will grow tax-deferred, and withdrawals are tax-free if used for qualified education expenses. However, many families are not eligible to make Coverdell ESAs contributions because of their income. Plus, these accounts have a relatively low contribution limit of **$2,000** per year, per child that can only be made until the child turns age 18, which can make it difficult to achieve a desired savings goal. And just like the 529, withdrawals are subject to a 10% penalty, and earnings are included in the gross income of the account holder if the distribution is not used for qualified education expenses.

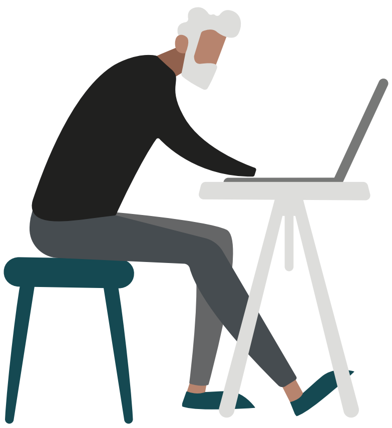


WHAT ABOUT FINANCIAL AID?

Many families rely on financial aid for college financing. Last year **47%** of families borrowed to pay for college.[2] If a family decides to utilize a 529 plan or a Coverdell ESA as an account for higher education costs, colleges and universities will count that accumulation as a family asset when calculating how much financial aid a child may or may not qualify to receive.

[2] "How America Pays for College 2021," Sallie Mae, May 2021

WHY USE PERMANENT LIFE INSURANCE?



The primary purpose of life insurance is to provide a death benefit to help your family cover expenses. Permanent life insurance may also offer benefits to those saving for education. Families may be able to take withdrawals or loans[3] against a policy's cash value to help pay for education expenses and still qualify for financial aid. Plus, in the event of an insured's untimely death, their family can choose to use the federal income tax-free death benefit to help pay education costs.

Life insurance policies are not counted as an asset for FAFSA financial aid qualification purposes.

Permanent life can be used as a standalone cash value accumulation vehicle[4], or it can be used as a complement to other sources a family may have. The advantage to using the cash value of a permanent life policy is that it doesn't have the same restrictions and limitations as 529 plans and Coverdells. Families would not be limited by the IRS's definition of qualified educational expenses since the cash value can be used for anything.

Families can withdraw some of a policy's cash value to pay educational expenses or if the permanent life insurance policy has enough cash value, families can borrow against this accrued value through a policy loan. Withdrawals are generally tax-free up to the amount of premiums they've already paid.

Otherwise, a policy loan is generally tax-free and there's no loan application process. While other loans require proof of eligibility, a loan against a life insurance policy uses the value that someone has already accumulated as collateral. Interest is charged against the policy for the loan, but borrowers are not required to make payments. If a policy is a modified endowment contract,[5] policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. Something else to remember is that accessing the cash value will reduce the available cash surrender value and total life insurance benefit of the policy and may cause the policy to lapse.

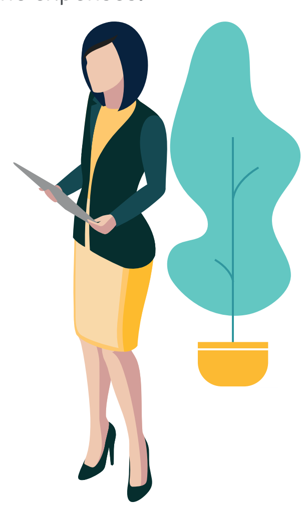
But when loans and withdrawals are used to pay for expenses, these do not count against a student's eligibility for financial aid or other assistance. Using this money will not typically reduce the amount of financial aid for which a child is eligible. A permanent life insurance's cash value can help supplement other financial aid funds a student has or help pay the other costs of college. In addition, the money withdrawn or borrowed from a permanent life insurance policy is not counted as an asset for FAFSA financial aid qualification purposes, while 529 assets and Coverdell assets do count.

Any available cash value from a permanent life insurance policy can be used to supplement the cost of paying for college, but it can also be used for other financial needs, providing flexibility if the child doesn't go to college.

Some families may choose to purchase a policy on their child. Paying for expenses related to a child's education can also be done through his or her own life insurance policy. Parents can insure their children at a young age and access the policy's cash value later. An advantage with this strategy is that the younger and healthier the insured is, typically, the less life insurance costs. It's important to get started early, so there is ample time to accumulate cash value. If a policy is purchased when a child is very young, it can accumulate value for when they are ready to go to college to offset some of the expenses. In addition, this locks in life insurance protection for the rest of the child's life.

WORK ALONGSIDE A QUALIFIED FINANCIAL PROFESSIONAL

Ultimately, family circumstances are personal and unique. Therefore, it is vitally important to discuss goals and objectives with a qualified financial professional who can help you decide if a permanent life insurance policy is the right college savings option for your family.



[3] Loans, withdrawals, and death benefit accelerations will reduce the policy value and the death benefit and may increase lapse risk. Policy loans are tax-free provided the policy remains in force. If the policy is surrendered or lapses, the amount of the policy loan will be considered a distribution from the policy and will be taxable to the extent that such loan plus other distributions at that time exceed the policy basis.

[4] Life insurance policies involve ongoing fees and charges, qualified 529 Plans do not. It's also important to note that 529 Plans have investment management fees and charges. Any permanent cash value life insurance policy involves the risk of lapse, which means that the insured would lose the life insurance policy. Any guarantees of a life insurance policy are based on the claims-paying ability of the issuer.

[5] There can be adverse tax implications for a policy classified as a modified endowment contract (MEC) or if the amount of loans and/or partial surrenders exceeds the cost basis of the policy. Additionally, certain partial surrenders from a policy which is not classified as a MEC and that are made during the surrender charge period may be fully or partially taxable. Distributions, including loans, from a MEC are taxable to the extent of the gain in the policy and may also be subject to 10% additional tax if the owner is under age 59½.

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