Financial Issues

FALL 2017 | CEFCU® Investment Services and Wealth Management

Investment Services • Retirement Planning • Trust and Investment Management

Life Insurance Before Age 40

Young adults have good reasons to obtain coverage now.

Purchasing a life insurance policy in your thirties may seem silly at first thought. After all, many young adults marry and start families later in life than past generations, and statistically have a good chance of living past 80.

A life insurance research and advocacy group (LIMRA) recently found only 30% of young adults thought saving for a vacation mattered more than buying life insurance coverage, and that insurance only became important upon starting a family or reaching age forty or so.[1] What are the upsides of setting up life insurance coverage sooner?

Your premiums will be lower.

The older you become, the more expensive life insurance becomes. Data compiled last summer by Life Happens®, a non-profit life insurance education effort, asked several prominent U.S. insurers to supply their preferred premium rates for healthy non-smokers aged 25, 35, and 45 buying a $250,000 whole life insurance policy.[2]

Average preferred premium rates for individuals fitting this description were:

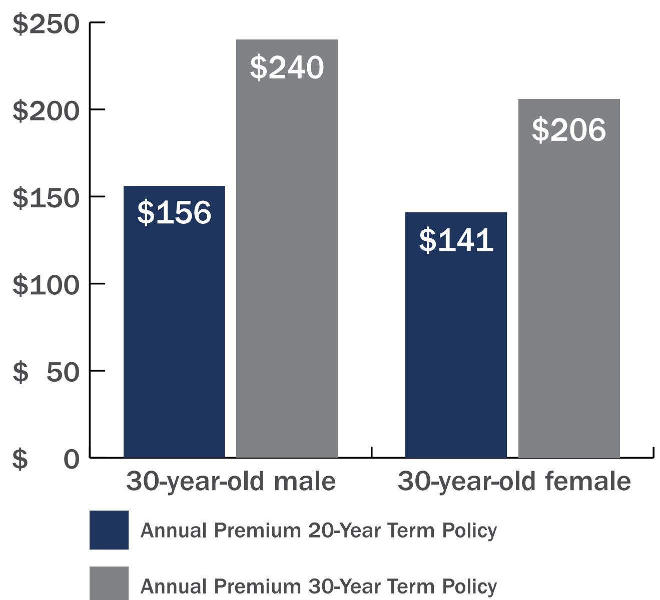
Age/Gender	Annual Premium
25-year-old male	$ 1,987
25-year-old female	$ 1,745
35-year-old male	$ 2,964
35-year-old female	$ 2,531
45-year-old male	$ 4,747
45-year-old female	$ 3,947

As you can see, premiums more than double for policyholders between age 25 and age 45.[2]

Premiums on term life policies are even lower.

Term life insurance is essentially coverage you "rent" for 10, 20, or 30 years. While term policies do not build cash value, they provide extremely cost-effective protection in the form of a death benefit.

NerdWallet, Inc.© recently researched term life premiums for healthy 30-year-olds. It found the following sample annual rates for 20- and 30-year term policies valued at $250,000:[3]



Continued on page 2

Put time on your side.

If you're under 40, life insurance may never be cheaper than it is for you today. Getting coverage now could be a money-smart move, as well as a great life decision.

To determine which type of insurance is best for you, consider talking with a Representative from CEFCU® Investment Services. We can assist you in looking at all factors and help you choose the policy that will work best for you. Licensed Representatives can meet with you at most CEFCU Member Centers, or you can schedule a phone appointment. To schedule a no-cost, no-obligation consultation with a CEFCU Investment Services Representative, call 1.800.356.7865, ext. 32571 today.

Types of Life Insurance Policies

Whole life insurance: covers you for your entire life (not just a portion of it, or a "term"). Whole life policies tend to cost more than term policies because they build cash value. After a certain period of time, you may be able to borrow against or withdraw from the cash value of a whole life policy.

Term life insurance: covers a pre-determined portion of your life, or a "term." If you die during the policy's term, your beneficiaries will receive the policy's coverage amount as a death benefit. It does not build cash value.

Variable life insurance: offers permanent coverage, but unlike whole life insurance, variable insurance allows you to invest the cash value into "subaccounts" (which can include money market funds, bonds, or stocks). Variable insurance offers you limited control, as the value and benefit depend upon the performance of the subaccounts you select.

Universal life insurance: offers flexibility. It is permanent life insurance that provides access to cash value, which builds up tax-deferred over time. You can choose the amount of coverage, and you can increase or decrease your coverage as your needs change (subject to minimums and requirements).

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Citations.

1 - cnbc.com/2016/10/17/think-about-life-insurance-sooner-rather-than-later.html [10/17/16]

2 - lifehappens.org/product-selector/comparing-the-cost-permanent-and-term-life-insurance/ [1/26/17]

3 - nerdwallet.com/life-insurance#basic [1/26/17]

Saul Juarez

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Helping you reach your financial goals is my number one objective. I'll work with you to make sound financial decisions consistent with your comfort level, investment timeline, and goals. We can start small and grow, or evaluate and build upon any existing financial plans. The end result will be a strategy designed to build, protect, use and transfer assets in the most advantageous way. Periodically, we'll review your progress and make adjustments as needed. It just makes sense — as your life changes, so do your financial needs, and I'll be here for you at every stage of your life.

As a trusted partner of CEFCU, I look forward to working with you. I have access to a wide variety of investment and insurance products. Specifically, I can make sure you have solid answers to these key questions:

- Is your retirement money invested properly?
- Will you have enough income in retirement?
- What should you do with an existing retirement plan from a previous employer?
- How will you pay for a child's or grandchild's education?
- Financially, what would happen to your family if you died?
- How will you pay for long-term care?

With 20+ years of consultative experience, my personal mission is to get know you, your financial needs, and customize a plan to help you meet your goals. Call me today for a no cost-no obligation financial analysis. I hold State of California Life & Health Insurance licenses and am a Registered Representative of CUNA Brokerage Services, Inc., member FINRA/SIPC.

A New Framework for Estate Planning

With the passage of the American Taxpayer Relief Act of 2012, the federal estate-tax rules changed dramatically, virtually eliminating federal estate taxes for most people. These changes present new opportunities for taxpayers, allowing them to reduce their beneficiaries' income taxes by carefully choosing which assets to include in their estates.

Under the new rules, the federal estate-tax exclusion is currently $5,490,000. Married couples can elect to make this exclusion "portable," meaning a surviving spouse may combine their own exclusion with any unused portion of the predeceasing spouse's exclusion. This means a potential 2017 federal estate tax exclusion up to $10,980,000 for 2017 — a significant savings*!

Reduce a beneficiary's capital gains.

Given this generous exclusion, taxpayers may want to take a second look at another tax rule that allows for a "stepped-up basis" for estate assets. Generally, "basis" equals cost plus improvements less any depreciation deductions. A higher basis is significant because it determines capital gains — which are taxed.** A step-up in basis to an asset's appreciated value at death allows the beneficiary to reduce the impact of capital gains from a later sale.

If you compare this rule to the one that applies to gifts, which requires the gift recipient to take the donor's basis. Given the difference in the tax treatment between lifetime gifts and those passed through an estate, the preferred tax strategy is generally to keep the asset in the estate if no estate-tax liability is anticipated.

Families should carefully choose which assets to keep in an estate. Good candidates for inclusion will be low-basis, high-value assets such as long-term investments in taxable accounts, as well as residences and vacation homes. However, each case must be examined carefully to determine the best course of action.

Understand your retirement benefits.

A large source of embedded income-tax liability in estate assets is retirement accounts, whether they're held in 401(k) or other employer plans or are individual retirement accounts. Such accounts typically consist entirely of pretax or deductible contributions plus tax-deferred earnings, and the estate-tax rules provide that the step-up rules do not apply. Instead, inherited retirement benefits constitute "income in respect of a decedent" and will create ordinary income-tax liability for either the estate or the beneficiaries.

Example: Thirty years ago, Jane purchased shares of stock for $25,000. Today, the shares are worth $200,000. If Jane makes a lifetime gift of the shares to her son, he will take his mother's basis of $25,000 for a potential capital gain of $175,000 from a sale. Alternatively, if Jane keeps the shares in her estate, her son will take the stepped-up basis equal to the shares' fair market value on the date of death, and any future gains will be measured from that higher value.

Because taxable retirement account distributions are subject to ordinary tax rates — which may be as high as 39.6% — the preferred strategy may be for the owner to draw down his or her retirement assets before those to which the stepped-up basis rules apply. If the retirement account will not be entirely spent down, the owner should properly designate the beneficiaries to allow them the best opportunities for tax deferral.

We can help.

If you'd like to find out more about the new tax rules and determine the best course of action for you and family members, contact Kevin Barbier, Trust and Investment Management Officer and CERTIFIED FINANCIAL PLANNER™ professional.

Kevin is part of the CEFCU Wealth Management team and can provide sound, unbiased investment planning and management that follows the same standards that guide your Credit Union — looking out for *your* best interests. To schedule an appointment, please call 309.633.3836 or 1.800.633.7077, ext. 33836.

*Generally, the executor for the predeceased spouse must make the election on a timely filed federal estate-tax return.

**Long-term capital gains (on assets held over one year) are taxed at a 15% rate for most taxpayers and a 20% rate for those in the highest regular bracket.

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