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# *How to Maximize the Cash Value of a Permanent Life Insurance Policy*

**By Lynnette Khalfani-Cox**

When you buy life insurance, the primary purpose is to provide cash for your loved ones in the event of your death.

But many policyholders unwittingly shortchange their beneficiaries by leaving large, unused amounts of cash value in their permanent life insurance policies, according to Jean Dorrell, president of Senior Financial Security Inc., a retirement- and estate-planning firm.

According to Dorrell, you want to try to die with "as little cash value as possible" in a permanent life insurance policy. "Otherwise, it [the cash value] just goes to the insurance company, and your beneficiaries simply get the death benefit."

There is a strategy, however, to leave more money to your beneficiaries when you have a policy that has accumulated a sizeable cash value over time. The solution is to contact your life insurance company and ask for a higher death benefit in exchange for the cash value of your policy.

### Trading in cash value for face value

This tactic allows those who own permanent life insurance policies of all kinds -- including whole life, universal life and variable life - to “trade in” the cash value of their policies for a higher death benefit for their loved ones. For more information on permanent life insurance products, see Insure.com's *The basics of permanent life insurance.*

The goal is to reduce the cash value to as close to zero as possible, and increase the face amount-- the death benefit -- by an equal amount.

### Here's an example of how it works.

Dorrell had a 74-year-old female client whose universal life insurance policy had a face amount of $150,000, and $120,000 in cash value. So, Dorrell had the client to call up her insurance company and ask for more death benefit in exchange for her cash value.

The company obliged the request and Dorrell's client nearly doubled the death benefit she's leaving behind to her beneficiaries. Now, instead of getting a $150,000 cash payout upon her death, the woman's heirs will receive $270,000.

Why are companies willing to do this? So they won't lose your business, says Dorrell.

She says that in about 40% of the cases where she sits down with new elderly clients, the person has a policy with a cash value and a death benefit that are virtually equal. Not understanding the options with the cash value of your policy is a big mistake because it leaves you paying premiums unnecessarily or dying with a big, unused cash value that never benefits your relatives, Dorrell says.

"When people die with large amounts of cash value, the insurance companies just salivate over that," Dorrell says. She adds that when you die with a big cash value that hasn't been liquidated, leveraged or converted to a death benefit, "the insurance company is making out better than your heirs."

### Paying life insurance premiums with cash value

If you don't want or need to increase the death benefit to heirs, you can also benefit by using your cash value in another way. Dorrell recommends telling your life insurance company to take premiums out

of your policy's cash value. This way, you don't have to pay insurance premiums anymore. For many people, this could save $2,000 a year or so in premiums, Dorrell says.

According to Dorrell, there is no standard rule on how much cash value you should have in a policy before making such a request.

"I would say depending on your premiums, make sure your cash value is about four to five times what your premiums would cost annually," Dorrell says. She says that is because if your cash value is too low, you might have to add monies to make up the cost of insurance.

Dorrell cites MetLife, New York Life, Northwestern Mutual and Prudential as companies that typically honor requests to increase your death benefit with your cash value. But she says many other life insurance companies will do the same. "You just have to ask for it," she says.

Senior Financial Security, Inc.