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Why Consider Modified Endowment contracts?

Modified Endowment contracts can be an annuity alternative. Fully liquid, linked to an index and grows tax deferred with a tax-free death benefit.


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BOCA RATON, FL, US, June 22, 2018 /EINPresswire.com/ -- There are many benefits of owning an annuity-like tax differed growth and income for life. But eventually the taxes will be due at an ordinary income rate and for non-spousal beneficiaries, the death benefit will also be taxed.

There is an overlooked annuity alternative that has been around since 1988 that has a tax-free death benefit and at the same time grows tax-deferred. Modified Endowment Contracts (MEC) are in fact life insurance contracts that grow tax-deferred and have a tax-free death benefit.

Unlike annuities, though MEC's can be used to bypass taxes not just defer them. Many advisors aren't taking advantage of using this strategy to help their clients by properly designing a MEC to fit their client's needs.

> "Modified Endowment contracts are an over looked annuity alternative advisers should consider."
> *Stuart Chamberlin*

A MEC is a tax qualification of a life insurance policy where the policy has been funded with more money than allowed under federal laws. If the cumulative premium payments exceed certain amounts specified under the IRS code, the life insurance policy becomes a modified endowment contract.

To illustrate the benefits let's suppose you needed access to your money during the surrender period of your annuity contract and you're over 59 ½. Most insurance companies allow you access of up 10% a year of your contract value or in many cases just your original investment while most MEC's allow you access up to 90% -100% of your cash value.

If you create a MEC using an indexed universal life (IUL) policy then the cash value is linked to an index just like a fixed indexed annuity (FIA) without the risk. All the gains on the cash value are locked in annually and in a typical IUL you can take tax-free loans against the cash value. In a MEC though since you over funded the policy any loans or cash withdraws against the cash value are taxed as ordinary income on a Last- in- First- Out (LIFO) basis. The death benefit though is tax-free and the cash value is fully liquid.

So you can overfund a cash value policy, link it to an index growing the cash value tax deferred and in some cases have up to a 135% participation rate in the index increasing the size of your estate to pass to your beneficiaries tax-free.

Many insurance companies are also allowing policy owners access to their death benefit while they're alive just in case they need long-term care. There is always some cost involved though for these benefits ranging from 1-2 percent depending on one's age. However many prefer paying for a long-term care benefit that is combined with the death benefit since you may not need the long-term benefit but you will eventually use the death benefit.

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