

# Alternatives to Cash on the Balance Sheet

The Living Benefits of Permanent  
Life Insurance



## ***Overview***

The need for cash in any successful business has always been strong. Cash may not be readily available today for financing sales or operational lines of credit. A lack of cash can add risk to your business because you can become more dependent on others.

So you've done the right thing – you've created a cash reserve that can help your business. Although a portion of that cash likely fluctuates in a normal business cycle, most businesses have a threshold of cash that they seek to constantly maintain. These funds are the amount that provides the owners with operational security. For example, a construction company may keep \$500,000 in reserves to support its bonding requirements.

## ***Common Concerns***

Many owners are concerned about options for cash in their business. Some want to have access, if needed, but do not anticipate that they would access these funds, except for emergencies. In today's economic environment, concerns include low interest rates, taxation of that interest, and lack of alternatives for their cash reserves. Typically, this money is kept in a bank money market account or bank CDs, which are FDIC insured up to \$250,000 per depositor. Money market accounts can usually be accessed without penalties. The term of a CD ranges from a few months to a few years. Withdrawals prior to maturity are generally subject to penalties and these types of cash reserves create net investment income that could be subject to the 3.8% Medicare surtax for some business owners. You may have another alternative that you have not considered.

## ***Making Your Cash More Efficient***

Business owners have a need for and recognize the value of life insurance to provide a death benefit for business and personal needs. If your business has such needs, you may want to consider permanent life insurance for death benefit protection as a vehicle for accumulating cash value for your cash reserves.

## **Permanent Life Insurance offers:**

- Income tax-free death benefits provided premiums are paid when due
- Tax-deferred growth on cash value<sup>1</sup>
- Tax-free access to cash values through policy withdrawals and loans<sup>2</sup>
- No 3.8% Medicare surtax unless policy is surrendered or lapsed

## **Some of the uses of that death benefit include:**

- Debt repayment
- Buy-Sell funding - to assist in the transfer of ownership/stock
- Key Person retention – to help your business continue, even if sales decline or expenses increase
- Cash – to protect the business against other contingencies

Permanent life insurance can also be used for executive benefits, providing key employees with assistance in funding their personal life insurance needs. Many choose to purchase term life insurance to meet some of these needs, but many have discovered that they can get the death benefit protection they need through a permanent life insurance policy that also gives them the cash value growth they want.

With proper planning, you may diversify cash reserves in a way that minimizes the effect of taxes, and protects your business with death benefits if you die.

<sup>1.</sup> *If the policy is surrendered or lapses, income taxes will be due on any gain.*

<sup>2.</sup> *Policy loans accrue interest at the current rate. Loans and withdrawals will decrease the policy cash value and death benefit.*



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