



YOUR LIFE INSURANCE POLICY DOESN'T HAVE TO RETIRE WHEN YOU DO!

Most of your clients probably are already sold on the idea that they need life insurance. But what happens when they retire, or when they pay off their mortgage, or when their children grow up and leave the house? For many, that need no longer becomes a priority. Why is that? Perhaps because they see life insurance as a “need,” rather than as a “value.” In fact, life insurance can be of great value in retirement. If we examine the value and various uses of life insurance, we’ll find that—as with many other financial instruments—it has various advantages.

ACCUMULATION TOOL

As an accumulation tool, life insurance can grow tax deferred, and under the “surrender to basis and borrow” technique, profits can be withdrawn tax free if the policy owner dies with the policy in force.

Many advisors, however, have turned away from using life insurance as an accumulation tool because of previous disappointment with underperforming products and poor design. But that alone does not rule out

the effectiveness of a good product and a well-designed plan.

Today, we understand that if a client plans on using life insurance to supplement their retirement, they’ll want to heavily fund it and minimize the insurance and other loads. Lapse-protection riders also help assure there isn’t an implosion down the line. Overfunding life insurance is still a consideration for very-high-income individuals who can’t save enough through qualified plans and need a death benefit. But for these same individuals, the “protection from creditors” aspect in many states is an added value.

PROTECT INCOME AND REPLACE ASSETS

Owning life insurance in retirement can allow your clients to deploy their other assets differently. If they have a defined-benefit pension plan and want to include a spouse in that plan, for example, life insurance may enable them to choose a straight-life option and still protect their spouse. This allows them to control their income and perhaps

even creates the option to leave money to their children, where a pension plan would not.

Of course, fewer individuals today actually have a pension plan, but most can benefit in a similar way through Social Security. Let’s take a look at a retired married couple. Depending on past employment and income, there is generally a loss of one-third to one-half of the household Social Security income at first death. Securing life insurance on each spouse can help offset the loss of this income. If your client has significant assets, this “Social Security maximization” concept is of less concern. On the other hand, the fewer assets they have, the more valued life insurance may be.

Perhaps your client hasn’t saved enough and is unable to live off the yield from their assets. A single-premium immediate annuity (SPIA) is an easier decision to make if they care about leaving money behind for their heirs. Life insurance gives them a “permission slip” to annuitize a portion of their investments to increase income and guarantee it for life.

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CREATING BALANCE

Life insurance can also create balance for unequal situations. Generally, this can come in a few forms—business ownership, multiple families, or special needs circumstances. A business owner who has one child working in the business and two who don't may decide to leave the assumed larger part of their estate (the family business) to their child

working in it. Life insurance can help leverage the rest of their estate for the other children.

Likewise, if your client has children from a previous marriage, life insurance may be the best way to take care of them, allowing them to plan as usual for their current family. It may also be of value when one of their children has special needs, allowing them to fund a "special needs trust" with life insurance

while planning as normal for the rest of their children.

ESTATE TAXES AND CHARITABLE GIVING

Life insurance often serves as the liquidity and leverage tool of choice for paying estate taxes. The federal limits have increased, and many people do not have federal tax exposure; but there are still about 20 states that have their own estate or inheritance tax. Certain assets that don't receive a stepped-up basis, like an IRA account, may be exposed to income taxation. Life insurance can be used to pay or replace that tax.

Life insurance can facilitate the creation of a "stretch IRA," which can be a valuable planning tool. When attempting to execute a stretch IRA, leaving cash for heirs to spend will help improve the success ratio for the stretch IRA. The life insurance provides the cash for them to buy things, thus allowing the IRA and other assets to remain fully invested.

Same with charitable planning. A life insurance policy could allow your client to leave that heavily taxed IRA to their favorite charity, while replacing the asset to their heirs. Or perhaps they'll choose to gift the policy to their favorite charity, leaving a legacy when they are gone.

REPURPOSE YOUR LIFE INSURANCE

If your client owns a policy they no longer want, what do they do with it? Perhaps the answer is to repurpose it. Their policy might be working just fine, but that doesn't mean they couldn't repurpose the coverage to achieve a different goal. For example, someone might choose to annuitize the policy cash value to increase retirement income, or they might exchange it for a policy that has a long-term care rider on it, thus making extended care a priority over the death benefit.

Life insurance is rapidly becoming the product of choice for those who want to protect against an extended-care need and are resistant to purchasing long-term care insurance. If your client already

"YOU HAVE TO HAVE IT BEFORE YOU NEED IT"

As an advisor to advisors in the area of insurance for the last 20-plus years, I have earned a unique perspective about the value of life insurance. My experiences have shown me that people generally value their life insurance more as they get older or as their health deteriorates. Unfortunately, I've seen far too many attempts to insure later in life, when coverage is either too costly or no longer available. You have to have it before you need it. You may not end up needing it, but you will likely value it.

I am currently working with an insurance client whom I have served in excess of 20 years. Mike was a union pipe fitter, and his wife Bernie was a paralegal for an attorney before they retired. They made decent money, but like many, they lived well and saved little. Twenty years ago at age 47, Mike wanted to increase his life insurance when they bought a bigger home and had a larger mortgage and a young child. When presented with different term and permanent options, he chose the 10-year term policy to save on the premiums. Ten years later, I was back in the picture as the initial policy was over and they needed new coverage—again, they decided to purchase another 10-year term policy.

Now we are at the end of that 10-year term period. Life insurance is as important as it ever was, but Mike is now 67. He has retired, and to maximize his income he took a pension option that ends when he dies. They both collect Social Security, and the insurance is needed to protect Bernie for the dual loss of income she will face when Mike dies—she will lose both his pension income and some of the household Social Security. They still have a small mortgage on their home, as they have tapped equity along the way.

The problem now more than ever is affordability of premiums, but they understand the importance of protecting Bernie. If we buy a 10-year term policy again, it is only convertible to age 70. If Mike's health goes downhill in the next 10 years and he is still alive, he won't be able to secure coverage, and there are few term options available for someone 77 years old. It is very likely they wouldn't be able to afford the substantially increasing premiums beyond the 10th year of a new term policy. The best we can do now is structure a "permanent term" policy called guaranteed universal life with a 13-year life span. If he is still alive at 79, they will need to pay more to extend the coverage out, but without worrying about insurability. It is also likely they will need to reduce the death benefit to be able to afford coverage at that point.

Looking back to our initial planning 20 years ago, Mike made the statement that he would have been better off if he had chosen to buy some permanent coverage from the very start. He could have designed it to be paid up at 65, and things would likely be better for them today. Sure, it would have taken more spending money away from them along the way—but in hindsight, it would have cost less than how things have turned out.

—Robert Barnes

owns a life insurance policy and doesn't want to (or can't) switch to a plan with a long-term care rider, perhaps they just keep the policy and use it to replace or replenish the money spent on care before they die. If they don't care to keep their life insurance policy and are older than 70 or have certain health conditions,

don't allow them to surrender the policy or just let it lapse—it might have more value in the settlement marketplace. Keep in mind, the settlement companies are buying policies with the intent to make a profit, so perhaps keeping the policy simply as a return on their investment makes sense.

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The Fund's Average Annualized Total Returns as of December 31, 2013

| Inception Date 04/09/98 | Since Inception | 15 year | 10 year | 5 year | 3 year | 1 year |
|-------------------------------|-----------------|---------|---------|--------|--------|--------|
| Perkins Discovery Fund | 12.16% | 12.11% | 8.51% | 24.56% | 10.68% | 41.43% |
| Wilshire U.S. Micro-Cap Index | 8.43% | 10.23% | 6.55% | 23.51% | 15.14% | 47.05% |
| Russell 2000 Index | 5.79% | 7.00% | 7.65% | 18.43% | 14.09% | 37.00% |
| NASDAQ Composite Index | 5.42% | 4.39% | 7.62% | 21.51% | 16.33% | 38.32% |
| S&P 500 Index | 3.29% | 2.76% | 5.21% | 15.40% | 13.70% | 29.60% |

Gross Expense Ratio - 3.18% Net Expense Ratio - 2.00%¹

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 1-800-998-3190. The fund imposes a 1.00% redemption fee on shares held less than 45 days. Performance data quoted does not reflect the redemption fee. If reflected, total returns would be reduced. Investment performance for the fund reflects fee waivers in effect. In the absence of such waivers, total return would be reduced.

¹ The adviser has contractually agreed to cap expenses to 2.00% indefinitely.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The Statutory and Summary Prospectuses contain this and other important information about the investment company, and may be obtained by calling 800-366-8361, or visiting www.perkinscapital.com. Read carefully before investing.

Small-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. The fund invests in micro-cap and early stage companies which tend to be more volatile and somewhat more speculative than investments in more established companies. As a result, investors considering an investment in the Fund should consider their ability to withstand the volatility of the Fund's net asset value associated with the risks of the portfolio.

The Wilshire US Micro-Cap Index is a float adjusted, market cap-weighted portfolio of all stocks below the 2500th rank by market cap in the Wilshire 5000. The Russell 2000 Index is composed of the 2,000 smallest companies in the Russell 3000 Index, and is widely regarded in the industry as the premier measure of small-cap stocks. The S&P 500 Index is a broad based unmanaged index of 500 stocks widely recognized as representative of the equity market. The NASDAQ Composite Index is a broad-based cap-weighted index of all NASDAQ national market and small-cap stocks. One cannot invest directly in an index.


First Dominion Capital Corp., Distributor



VALUE IS IN THE EYE OF THE BEHOLDER

As Stephen Covey, author of *The 7 Habits of Highly Effective People*, recommends, "begin with the end in mind." Moving forward, it might make sense to recommend that some portion of your client's life insurance be permanent and perhaps include a long-term care access rider. If they own it now, they can't be turned down or rated higher if their health declines. Starting early will cost less in the long run, and perhaps they can pay it up before retirement so they can maximize their net income during retirement.

Having a policy in retirement allows them to make other choices more easily. Tell them to go ahead and take the straight-life option on their pension, because their spouse will receive the life insurance proceeds. Don't worry that their spouse will lose Social Security income upon their death—the insurance policy will make up the difference. Don't worry about buying long-term care coverage, because they can access their death benefit if they need to, assuming they have a long-term care rider on it. And tell them to go ahead and annuitize their mutual fund to increase and guarantee a lifetime income, because their policy will replace it when they die.

I guess it all depends on your perspective. As they say, "beauty is in the eye of the beholder," and perhaps life insurance falls under that very statement. There is no doubt that life insurance has numerous effective applications, making it the "Swiss Army knife" of financial tools. I understand that many are looking at the need for life insurance and not necessarily seeing the value, but looking at the realities people face, I see a myriad of ways that life insurance will be valued. 

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