

10 Uses for Life Insurance in Estate Planning

Basic Strategies to Consider During the Estate Planning Process

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#1 Pre-Funding an Inheritance

- A young and healthy client can **pre-fund their children's inheritances** in a very cost-efficient manner.
- Allows the client to not spend retirement in a situation where **every dollar they spend is one less dollar going to their children.**
- In **blended family situations**, one can guarantee inheritance to their children while allowing a surviving (non-parent) spouse to use and enjoy specific assets enjoyed during marriage.
- Can guarantee the care, support, and adequate funding of a **special needs trust** even though the ultimate value of the estate remains uncertain.

#2 Estate Tax Avoidance

- Life insurance can be the **easiest way to transfer wealth** to the next generation free of any estate tax exposure.
- Money transferred via premium payments into a life insurance policy inside of an Irrevocable Life Insurance Trust **becomes estate tax free.**
- Multiple strategies exist to **make premium payments without any gift tax exposure.**
- Money transferred into a life insurance policy is also a **productive use of the money** and can provide a significant multiple (or rate of return) on premiums paid.
- Some strategies exist to allow **lifetime access to policy cash value.**

#3 Estate Tax Planning

- There is absolutely **no reason why anyone should pay the estate tax** if they are insurable. A policy with a \$1M death benefit and a \$999,999 premium is still cheaper than paying a \$1M estate tax.
- Estate tax planning is often a balance between lifetime flexibility and after-death tax benefit. By allowing some tax liability to exist and cover such liability with insurance, **one can enjoy much more lifetime flexibility with their wealth.**
- Reducing one's Unified Credit during life by funding a life insurance policy is still **more efficient than doing so through the accumulation of wealth.**
 - Notwithstanding, many strategies exist which **do not require a reduction in one's Unified Credit.**

#4 Estate Creation

- Young families or families with **little to no net worth** can still leave a legacy without accumulating wealth.
- Can also **hedge against uncertain income, career outlook, or unforeseen expenses** which could significantly decrease the value of the estate (e.g., catastrophic medical costs, divorce, etc.).
- A **term policy** can be used for a duration until steady, consistent wealth can be accumulated.
- A **permanent policy** can accomplish this objective, while providing an additional guaranteed benefit.

#5 General Estate Liquidity

- Upon one's death, there are numerous immediate financial obligations which **require liquidity** to be available in a short period of time.
 - Funeral Expenses
 - Family Travel
 - Final Medical Expenses
 - Estate Administration Expenses (Fixing up Real Estate to Sell, etc.)
- A term policy can be used (as opposed to a permanent policy) if there are **plans to liquidate** certain assets prior to the expiration of the term.

#6 Estate Equalization

- An estate that is **somewhat illiquid** may not be able to provide the proportionate distributions the client desires.
- By purchasing a life insurance policy, **the “denominator” can be increased** to the point where the “fractions” can evenly divide among beneficiaries.
- Example: A \$10M estate (where \$6M is the value of the business) cannot be divided equally among two children (assuming one child is involved in the business). **A \$2M life insurance policy would create a 50/50 division of a \$12M estate.**
- A **permanent policy** would be needed to ensure this objective is accomplished.

#7 Buy-Sell Agreements

- It is typically **preferred for both partners** in a business for a deceased partner.
 - The surviving partner needs to consolidate ownership.
 - The deceased partner needs to monetize their equity.
- Policy can be **owned by each partner** (to give liquidity to the surviving partner) **or by the company** (to give liquidity to the company to redeem the shares).
- Typically, **only a term policy is needed** (to exist until the anticipated date of dissolution).
- A **permanent policy** owned by a separate entity (i.e. life insurance partnership) can also **build equity** for both partners.

#8 Unsophisticated Spouse Planning

- Very similar to a typical business buy-sell scenario, one spouse could be managing **passive investments with a partner** which the surviving spouse would prefer to liquidate. A policy would provide the partner liquidity to “buy out” the surviving spouse.
- Also applicable in situations where there is no partner, but the investment **requires a longer time-frame** to materialize.
- A **permanent policy is needed** unless there are definitive plans to liquidate the investment sometime in the future.

#9 Key Man / Business Succession

- A **key man policy** is a policy on the life of a key employee integral to the success of one's business. Applies both in situations where there is a need to **protect ongoing operations** as well as **protect a succession plan**.
- In a succession situation, a policy can provide **lost compensation to an outgoing business owner** if the successor dies prematurely. Otherwise, the business owner would need to “start over” with a new successor.
- In a succession situation, a policy can also provide **additional support or capital to a less-experienced successor** should the outgoing business owner die prematurely.

#10 Charitable Planning

- Many clients have charitable intent with no real financial means to act on it. **A life insurance policy can “create an estate”** to allow them to do so.
- A policy can also act as a **pre-funded legacy** as a “set-it-and-forget-it” strategy.
- A policy with a long-term care rider or catastrophic illness rider can **exist to provide those benefits while at the same time providing the death benefit for a charity** if rider benefits are not used.
- A **testamentary family foundation** can be created upon death and funded with a life insurance policy to create an ongoing legacy or long-term family involvement in charitable endeavors.