



Why Life Insurance Will Always Matter in Estate Planning

With or without the estate tax, it addresses several key priorities.

Provided by Richon Planning

Every few years, predictions emerge that the estate tax will sunset. Even if it does, that will not remove the need for life insurance in estate planning. Why? The reasons are numerous.

You can use life insurance proceeds to equalize inheritances. If sizable, illiquid assets make it difficult to leave the same amount of wealth to each heir, then the cash from a life insurance death benefit may financially compensate.

You can plan for a life insurance payout to replace assets gifted to charity. You often see this move in the planning of charitable remainder trusts (CRTs).

People use CRTs to accomplish three objectives. One, they can remove an asset from their taxable estate by placing it into the CRT. Two, they can derive a retirement income stream from the trust's invested assets. Three, upon their death, they can donate a percentage of the assets left in the CRT to charities or non-profit organizations.¹

When a CRT is fashioned, an irrevocable life insurance trust (ILIT) is often created to complement it. The life insurance trust can be funded with income from the invested assets in the CRT and tax savings realized at the CRT's creation. (The trustor can take an immediate charitable income tax deduction in the year that an appreciated asset is transferred into the CRT.) Basically, the value of the life insurance death benefit makes up for the loss of the CRT assets bound for charity.¹

Life insurance can help business owners with succession. It can fund buy-sell agreements to help facilitate a transfer of ownership, regardless of how an owner or co-owner leaves a company. It can also insure key employees – the policy can help the business attract and retain first-rate managers and creatives, and its death benefit could help lessen financial hardship if the employee unexpectedly passes away.²

Life insurance products can also figure into executive benefits. Indeed, corporate-owned life insurance is integral to supplemental executive retirement plans (SERPs), the varieties of which include bonus plans and non-qualified deferred compensation arrangements.³

Lastly, a life insurance policy death benefit transfers quickly to a beneficiary. The funds are paid out within weeks, even days. A beneficiary form directs the process, rather than a will – so the asset distribution occurs apart from the public scrutiny of probate. Life insurance is also a backbone of trust planning, and assets held inside a trust can be distributed directly to heirs by a trustee according to trust terms, privately and away from predators and creditors.⁴



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Citations.

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