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The Many Benefits of Life Insurance in Estate Planning

Life insurance is a unique asset used to accomplish any of the following:

1. The creation of an estate where circumstances have kept the estate owner from accumulating sufficient assets to care for his loved ones in the event of a premature death.
2. To protect a business value due to the loss of key employees.
3. For debt reduction. Personal and business loans can be paid off with life insurance proceeds.
4. To equalize inheritance. Most estates are made up of various illiquid assets and the liquidity nature of death benefit proceeds allows for equalization among children.
5. Accelerated death benefit. Terminally ill individuals can receive a portion of their death benefit prior to death on an income tax free basis to pay for medical bills, and other expenses and/or to prevent dying destitute.
6. To pay for death taxes and/or estate settlement costs. These costs can exceed 50% of the fair market value of an estate.
7. Pay off a home mortgage.
8. Fund a business transfer. Many businesses have multiple stockholders. Life insurance proceeds upon the death of one stockholder provide ready cash to finance the transaction.
9. To replace charitable gifts. If large assets are gifted to charity there are fewer dollars that can pass as an inheritance. Life insurance can replace that lost inheritance.
10. To supplement retirement funding. Certain life insurance products can supplement retirement funding by accumulating additional funds for retirement years.

Many clients are in the process of building wealth but it may be years before they realize the fruits of their investments or labors. If such a client dies prematurely, life insurance can be used to create wealth immediately for heirs and loved ones.

Of course the amount of the inheritance can be tailored to the needs and wants of a particular person. Where one person might feel comfortable leaving a sum of $100,000, another might want to leave an inheritance in the millions. Generally speaking, either goal can be achieved.

Many estates are still subject to state estate taxes (and some are still subject to deferral estate taxes). Some of these will not have sufficient liquidity (cash) to pay estate taxes when due. Estate assets could be sold, and if the market for those assets is strong, this might be a satisfactory solution. On the other hand, if the market is down or if the people charged with selling the assets do not appreciate their true value, a sale could result in devastation of the estate value.

Therefore, life insurance (if structured properly) can provide the estate with immediate liquidity to buy time and flexibility for the executor and heirs to determine the best course of action. Life insurance proceeds guarantee that the assets can be sold in an orderly manner, including holding the assets to a later date if the market is in a slump.

The amount of life insurance needed will depend on a variety of factors including:

- How the insurance is to be used
- Whether or not you own a business and your plans for its succession
- Whether or not you have a taxable estate
- The liquidity of your assets
- Your age and current earning capacity
- And many more.

Your advisory team, using detailed financial modeling and reasonable assumptions, can help you quantify the amounts needed for these various coverage needs. Your life insurance agent or financial planner may have software that helps with these calculations.