Four Ways to Use Life Insurance in Wealth Management Plans*

For high-net-worth families and individuals, life insurance can provide benefits that go well beyond replacing income to support beneficiaries when you pass away. Indeed, when included as part of a comprehensive estate plan, life insurance can provide liquidity to pay estate taxes, allow beneficiaries to retain ownership in important assets like family businesses and real estate, equalize inheritances among survivors, maximize your wealth, and secure your legacy.

1. Estate Tax Liquidity

Above certain amounts, the United States federal government imposes an estate tax on the transfer of property at death. In addition to federal taxes, a number of states impose a state level estate tax or inheritance tax, as well.

These taxes, along with other expenses, must be paid soon after death. However, high-net-worth individuals and families often own special or illiquid assets such as a business or real estate, making it difficult or impractical to quickly convert them into cash.

Life insurance has historically been an attractive asset to own to help pay for estate taxes and provide estate liquidity. One of the most common ways of incorporating life insurance into a wealth transfer plan is by using it in conjunction with an Irrevocable Life Insurance Trust (ILIT), which offers advantages that are not available with outright policy ownership by an individual.

In an ILIT, the trust is the owner and beneficiary of an insurance policy on your life. Unlike a policy you own directly, this allows the ILIT to receive the death benefit free from estate taxes and provides the funds needed for estate taxes and other costs.

2. Estate Equalization

In creating an estate plan, one of the most important decisions you make is determining how much each heir will receive and what form the inheritance will take. Dividing the assets equally among heirs may be the desired outcome, but there are situations where this can be difficult due to the assets involved.

For example, leaving certain assets such as a family home to multiple heirs can be impractical. A family business can also present complications, especially when some family members are involved in the business while others are not. Leaving the business to those who are running it makes sense, but what happens to those who are not engaged in the company's operations? If the business represents the bulk of the estate's value, other assets may not be of sufficient value to treat every heir equally.

Life insurance can be used to ensure that inheritances are equalized and to address the challenges that come with assets that are hard to divide. You could purchase a permanent life insurance policy or your ILIT can purchase the policy if estate taxes are a concern. The proceeds from the death benefit can then be used to ensure that heirs receive the inheritance you wish them to have.

3. Wealth Accumulation and Protection	Life insurance is an important consideration for any family, particularly if there is a large income disparity between family members. In these situations, the tax-free death benefit can provide protection for your family when they need it the most. However, when properly designed and funded, permanent life insurance can offer ways to both protect your family and enhance retirement income in a tax-advantaged vehicle. Cash value life insurance policies accumulate a cash balance inside the policy. This cash balance grows on a tax-deferred basis, providing policyholders an option to grow their wealth in a tax-favorable manner. In addition, cash balances held within insurance contracts may be afforded creditor and liability protection by the state in which the policy was purchased. A permanent life insurance policy provides flexibility to access the policy's cash value with tax-favored distributions, as well. Policyholders can access potential policy cash value via tax-favored loans and withdrawals to supplement retirement income. This solution is often utilized by individuals that wish to contribute beyond limits in traditional retirement savings vehicles, like 401(k)s and IRAs.
4. Securing a Legacy or Enhancing a Charitable Gift	Life insurance policies can be also used to ensure that charities that are important to you — including a family foundation — are not only funded but that donated wealth is replaced for family members. A popular vehicle for estate planning purposes is a wealth replacement trust, which combines a life insurance policy, an ILIT, and a charitable remainder trust (CRT) to replace assets donated to a nonprofit. In a wealth replacement trust, you use income from the CRT to pay premiums on the life insurance policy, which is owned by the ILIT. You may choose to replace all or a portion of the property that will go to the charity via the CRT. Using a wealth transfer trust has valuable tax benefits. The charitable income tax deduction can be used to fund the life insurance policy, which effectively allows you to replace donated assets at a discount. And since the life insurance policy is owned by the ILIT, the policy's proceeds can avoid estate taxes.

Evaluating life insurance as part of your estate plan

Life insurance can play an important role in your estate planning strategy:

Liquidity	Help beneficiaries retain ownership in important assets	Equalize inheritances	Enhance wealth accumulation	Secure your legacy

To learn more about how life insurance can align with your goals, contact your advisor or a Key Private Bank Wealth Protection Strategist.*

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