

Life insurance can be a powerful estate planning tool for nontaxable estates

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For years, life insurance has played a critical role in estate planning, providing a source of liquidity to pay estate taxes and other expenses. Today, the gift and estate tax exemption has climbed to \$11.4 million, so estate taxes are no longer a concern for the vast majority of families. But even for nontaxable estates, life insurance continues to offer estate planning benefits.

Replacing income and wealth

Life insurance can protect your family by replacing your lost income. It can also be used to replace wealth in a variety of contexts. For example, suppose you own highly appreciated real estate or other assets and wish to dispose of them without generating current capital gains tax liability. One option is to contribute the assets to a charitable remainder trust ("CRT").

As a tax-exempt entity, the CRT can sell the assets and reinvest the proceeds without triggering capital gains tax. In addition, you and your spouse will enjoy an income stream and charitable income tax deductions. Typically, distributions you receive from the CRT are treated as a combination of ordinary taxable income, capital gains, tax-exempt income and tax-free return of principal.

After you and your spouse die, the remaining trust assets pass to charity. This will reduce the amount of wealth available to your children or other heirs. But you can use life insurance (a cost-effective second-to-die policy, for example) to replace that lost wealth.

You can also use life insurance to replace wealth that's lost to long-term care ("LTC") expenses, such as nursing home costs, for you or your spouse. Although LTC insurance is available, it can be expensive, especially if you're already beyond retirement age. For many people, a better option is to use personal savings and investments to fund their LTC needs and to purchase life insurance to replace the money that's spent on such care. One advantage of this approach is that, if neither you nor your spouse needs LTC, your heirs will enjoy a windfall.

Finding the right policy

These are just a few examples of the many benefits provided by life insurance. We can help determine which type of life insurance policy is right for your situation.

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