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TAX AND WEALTH ADVISOR ALERT: HOW DOES LIFE INSURANCE WORK WITH AN ESTATE PLAN?

We must always expect the unexpected. We can be careful and prudent in our daily lives, but there are certain things that are out of our control, like death. In the event of your untimely death, are you able to provide ongoing support to your loved ones and important causes? By securing life insurance and establishing a comprehensive estate plan, you can help protect your family and loved ones and support your charitable causes after your death.

What is Life Insurance?

Life insurance is a contract with an insurance company that provides a sum of money to a designated person or entity upon the death of the insured person. Some policies also contain provisions that permit a payout upon a specific event, such as a terminal or critical illness. Buying life insurance is a common way for people to plan for the future of their families, loved ones, businesses, or other causes. It is important to understand what type of life insurance suits your needs.

What are the Different Types of Life Insurance?

There are two main types of life insurance that an individual can purchase: term life insurance and permanent life insurance.

- Term life insurance – This type of life insurance provides a death benefit upon the death of the covered insured during a specific, fixed period, often 1 to 30 years. The policy will pay out benefits to the designated beneficiary if the insured dies during the policy's term. Term life insurance is often purchased by individuals who want coverage for specific reasons in the event of their death, such as taking care of minor children or paying off a mortgage. Term life insurance is more affordable than permanent life insurance, as it only offers benefits for the term of the policy. If you have a small estate that is simple to manage, then term life insurance might be your best option.
- Permanent life insurance – This type of insurance provides a death benefit upon the death of the covered insured and a cash value that the covered insured may be able to access during their life. Common forms of permanent life insurance are whole life, universal life, variable life, and variable universal life insurance. Permanent life insurance is commonly purchased by individuals who have large estates that are complex to manage. While permanent life insurance is more expensive than term life insurance, its potential benefits can be much greater. If you have a special-need heir,

large assets that are difficult to divide, or high estate taxes that will burden the beneficiary, then permanent life insurance might be your best option.

For both types of insurance, it is important to pay the premiums. With term life insurance, the policy typically lapses if you fail to pay a premium and your beneficiaries will obtain no benefit upon your death. With permanent life insurance, the contract may provide different choices if you fail to pay the premiums.

Make sure to work with an experienced estate planning attorney and your insurance agent to evaluate your situation and determine what type and level of insurance are best for you and your loved ones. Your current decisions can benefit future generations if you plan appropriately.

What are the Most Common Benefits of Having Life Insurance?

There are several important benefits that can be realized with the appropriate type and level of life insurance. Some of the most common benefits of life insurance include:

- Taking care of loved ones
- Maximizing wealth
- Paying off mortgages or other debts
- Securing a long-term legacy
- Protecting a business long-term
- Putting wealth into important causes
- Leaving a gift to charity

It is important to secure a policy that meets your long-term goals. Make sure you consider your choices so your plan is the best fit for you.

What is an Estate Plan?

Estate planning is the process of thinking about what will happen to your money, property, and other possessions after you die. Estate planning can determine how your affairs will be handled in the event that you become unable to care for yourself. Estate planning may also include planning for the long-term succession of a business. A goal of estate planning often is to minimize the amount of taxes and other expenses that arise upon death. Your personal goals and wishes should drive the type of estate plan you create. There are different mechanisms to develop a comprehensive estate plan, which can include:

- Will
- Trusts
- Powers of appointment
- Determination of property ownership and retitling of property
- Gifts
- Powers of attorney

A comprehensive estate plan should be tailored to your needs and your desires and should not be a cookie-cutter form document.

How Can Life Insurance Work with an Estate Plan?

The appropriate life insurance policy can be a significant part of your estate plan. Often, individuals simply designate a family member as the beneficiary of a life insurance policy without considering their overall estate planning goals. This can result in unintended consequences such as unequal distribution to beneficiaries or tax implications. Designating the right beneficiary on any insurance policy is important to achieve your estate planning goals.