

# Insurance in the Current Estate Tax Environment

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One of the primary reasons for life insurance is to provide liquidity in the estate settlement process. Many times, having adequate life insurance allows the executor of an estate to pay expenses and taxes without having to liquidate other assets.

Since the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), we've heard a lot of talk about estate tax reform and repeal. There is still much speculation over whether the estate tax will actually be repealed causing many to delay starting or completing the estate planning process. This "wait and see" approach could be disastrous. Estate Planning is still critical for transferring assets to the next generation. Let's look at a hypothetical case where we have a \$4,000,000 estate growing at 4% per year. For the purposes of our illustration the \$4,000,000 is a business with a \$500,000 basis.

Whether you use an "all to spouse" approach or "credit shelter" planning, there is the potential for substantial taxes. There will be liquidity issues in large estates and planning will remain critical. In addition to the liquidity needs of the transfer of assets, estate planning also includes the accumulation and preservation of assets. It is a lifetime process that has as its objective, to assure that the right assets go to the right individuals at the right time. Life insurance can play a significant role in all phases of the process – accumulation, preservation and transfer. Therefore, life insurance will survive any estate tax proposal that ultimately becomes law. Here are some additional ways that life insurance will continue to be used regardless of estate tax reform:

- 1) Business owners will continue to use life insurance as a cost-effective way to fund their business succession agreements.
- 2) Corporations and other business entities will continue to use life insurance to fund their liabilities incurred by deferred compensation plans.
- 3) Those taxpayers with handicapped family members will continue to fund their Special Needs Trusts with life insurance to preserve any government entitlement benefits that the disabled person may be receiving.
- 4) Life insurance will remain an extremely cost-efficient way to provide substantial amounts to a church or other charitable institutions.
- 5) Life insurance funded dynasty trusts will continue to be an attractive way of providing substantial wealth to future generations.
- 6) Life insurance will continue to be an attractive vehicle to help supplement retirement income.

There is no other product that provides the benefits of a properly designed life insurance program. We believe strongly in life insurance as a financial tool that can help virtually everyone meet some financial objective. Although our practice includes many other aspects of assisting you to achieve your financial goals, we remain resolute in our convictions about the value of life insurance to you. Give us a call if you have any questions.

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