

The Gift of Life (Insurance)

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Estate planning is a process that includes planning for the use of your estate assets while living and the disposition of your estate assets at death. Proper use of your assets during your lifetime can assure you of a comfortable standard of living and sufficient assets to provide for a spouse that outlives you as well as your other heirs like children and grandchildren. Improper or unplanned use of your assets may result in an adjustment to your quality of life as you age or having nothing to pass on. For many people their greatest fear is outliving their resources. Planning for the ultimate disposition of your assets at death cannot be accomplished without first providing the answer to the question, "Will I have enough money to live comfortably for the rest of my life?"

With the turbulence in today's equity markets, that first question of outliving resources takes an even greater significance and requires constant vigilance regarding investment strategies. The proper management of your assets while alive will dictate not only your comfort but will determine what kind of legacy you leave behind.

If we assume that you have satisfied the first estate planning question (outliving resources), and you hope to have something to pass on to your heirs after F.E.T., then life insurance becomes a valuable tool in the planning process. As you know, life insurance requires good health to obtain and increases in cost with age. Both of those factors would indicate an early decision to purchase life insurance. For many, the uncertainty of the law will cause them to put off this part of the process. The logic is why spend money for a product that may never be needed if estate taxes are significantly reduced or even eliminated. There is potential disaster in this logic. It may be that once the Federal Estate Tax issue is finally resolved your health has deteriorated; you are older and the conditions under which you can acquire life insurance are less than favorable, making it less attractive economically.

Of course, life insurance is used for many purposes. It may be that the life insurance proceeds are to be used to pay final expenses and taxes, thereby preserving other assets. Life insurance can be used to fund special needs trusts for handicapped family members. Life insurance may be used to fund a trust for the purpose of providing income to a surviving spouse or can be the vehicle to benefit a charity or charities of your choice.

Your present estate tax circumstances may indicate with reasonable growth assumptions that you will, indeed, be exposed to federal estate taxes. After careful review, you and your advisor have determined that life insurance represents a viable solution to this situation. You are hesitant to "invest" premium dollars that could be

substantial since the F.E.T. may ultimately disappear. You realize procrastination could end up being very costly but you hesitate to make this commitment. Perhaps knowing about an economically attractive “exit” strategy would allow you to proceed.

You could make an outright gift of the policy to a charity and produce an immediate charitable income tax deduction equal to the lesser of the policy’s value (replacement cost) or your basis (premium paid) in the policy. The charitable deduction is limited by the 50% AGI limitation, not the 30% limitation for the appreciated property value. Unused deductions can be carried forward. At your death your estate receives an estate tax deduction and the charity of your choice receives much needed funds.

Perhaps you don’t like the charitable gift idea but can use the policy to fund a trust for children or grandchildren. The message is clear that, if your estate circumstances indicate the need for life insurance, you should act to satisfy that need. If it turns out that this policy is no longer needed to provide estate liquidity or fund a trust to provide income, you have many economically sound options for that policy. Of course, we recommend that all of these issues should be discussed with your financial advisor and other members of your Mastermind Team.

We have developed a system to review, analyze and recommended successful strategies for the implementation of new life insurance or the proper application of existing life insurance. We do this in concert with your Mastermind Team (i.e. attorney, accountant, business partner, spouse) so that proper coordination of all aspects of your estate and financial plan is assured. If you have any questions or concerns regarding your life insurance and its value in your plan, please give us a call.

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