HOW TO GET CREATIVE WITH LIFE INSURANCE

When they hear the term "life insurance," people usually think of an insurance policy that will provide financial protection for their family when they die. But life insurance can also be used in creative ways to accomplish other financial goals beyond just providing your loved ones with a death benefit. When used strategically, life insurance can be a valuable estate planning, business succession and charitable giving tool for affluent and high-net-worth individuals. Following is an explanation of the role life insurance can play in each of these areas.

LIQUIDITY FOR ESTATE PLANNING

When used as a component of your estate plan, life insurance can help you leverage liquidity in order to prepay estate taxes. A life insurance policy can be the vehicle used to gift assets to your heirs so they are removed from your taxable estate.

In 2016, the top estate tax rate is 40 percent, which is applied to estates worth more than $5.43 million (or to the estates of married couples that are worth more than $10.86 million). Individuals and couples with estates that are larger than this can use life insurance to transfer up $14,000 per year (or $28,000 for married couples) to their heirs, which may reduce the amount of estate taxes heirs have to pay.

Another strategy is to establish an Irrevocable Life Insurance Trust (ILIT) outside of your estate and make annual gifts to the trust. This cash would be used to buy a life insurance policy with your heirs listed as the beneficiary. The proceeds of the policy could then be used by your heirs to pay estate taxes and settle any other estate expenses smoothly and efficiently.

ENSURING BUSINESS CONTINUITY

One of the biggest succession challenges many business owners face is ensuring that their business will continue if they unexpectedly die or become disabled. If this isn't planned for in advance, there's a good chance the business will not survive the turbulent transition period.

The best way to plan for a smooth business transfer in this situation is to create a buy-sell agreement funded by life insurance. Here's how it works: After choosing a successor — such as a key employee or outside stakeholder — you will draft an agreement that establishes the business' value. Or the agreement may create a formula for establishing the business' value upon your death or disability.

The appointed successor will purchase a cash-value life insurance policy on you that will pay out upon your death or permanent disability. He or she will then use these proceeds to buy the business at its established value. Your family, meanwhile, will receive cash from the sale to meet their ongoing living expenses.

TAX-EFFICIENT CHARITABLE GIVING

You probably give money to charities and causes you're passionate about. However, life insurance may enable you to reap tax and estate planning benefits from charitable giving. This can be accomplished by distributing your gifts to a Charitable Remainder Trust (CRT) instead of giving them directly to a charitable organization.

With this strategy, you will receive income generated by the CRT's assets as well as a current income tax deduction for your charitable contributions. When you die, the assets remaining in the trust will go to your designated charity. Meanwhile, you will use the income you receive from the trust assets to purchase a life insurance policy listing your family as the beneficiary.

DOES LONG-TERM CARE INSURANCE MAKE SENSE?

Another type of life insurance that should be considered as part of your family's financial protection plan is long-term care (or LTC) insurance. This type of policy will provide coverage to help pay for a wide range of healthcare costs for you and your spouse once you enter retirement, including nursing home, assisted-living and home health care.

It's estimated that more than two-thirds of individuals who are 65 years of age or over now will need long-term care before they die. Given that the median annual cost for a private nursing home room is $91,250, it might make sense to look into whether long-term care insurance is a smart buy for you and your spouse.

LTC premiums are based largely on your age and health at the time when you buy the policy. Generally speaking, the younger and healthier you are when purchasing a LTC policy, the less expensive it will be. If you are over age 60 and not in good health, you might determine that self-funding your healthcare expenses in retirement is a more cost-effective option.

LIFE INSURANCE FOR FINANCIAL PROTECTION

Of course, many people consider financial protection to be the main purpose for buying life insurance. This is especially true when one spouse is the primary earner in a family. Should this spouse die unexpectedly, the family could face financial ruin if a life insurance policy is not in place for the deceased spouse.

There are two main types of life insurance that can be used for financial protection: term insurance and permanent insurance. Term insurance buys a particular amount of coverage for a specified period of time (the term). In exchange for paying the premiums, you will receive a death benefit payable to your beneficiaries — presumably your family members for whom you want to provide financial protection.

Premiums can be paid in a lump sum or in installments annually, semi-annually or monthly. When the term is over, you may be able to renew the policy, though probably at a higher premium. The cost of term insurance is based on a variety of factors including your age, location and current health status.

Permanent life insurance is very different from term insurance. For starters, the premium is guaranteed to remain the same for the rest of your life. However, this premium is typically higher than term insurance — sometimes much higher. One reason why is because a portion of the premium goes into what is essentially an investment account, where it accumulates as cash value.

Many different variables go into deciding which type of life insurance is right for you and your situation. In short: If you want to minimize cost, term will be your best option. If you want to lock in a fixed premium for the long term and can benefit from an investment component, you might be better off with permanent insurance.

To best provide for your family, it's important to consider how insurance might be a critical part of your entire financial plan when things don't go exactly as expected. That's why we have specialists in house to help assess your current plan, advise on gaps or overlaps in your existing coverage and provide advice around future solutions that transfer risk to the deeper pockets of an insurance company.

We strive to address the certainty around uncertainty.

Our specialists work together to ensure that the risk management and insurance solutions we recommend are in support of your goals and values. Let us help you in the following areas:

- Finding the best insurance carrier to work with for your specific needs
- Income protection strategies
- Executive benefit programs
- Life insurance and beneficiary audits
- Employer Disability Audit and supplemental coverage
- Long-term care coverage options and strategies
- Estate tax minimization strategies
- Estate Replacement strategies

If you have more questions about how to use life insurance creatively, please give us a call. We can help you utilize life insurance as part of your overall estate planning, business planning and charitable giving strategies, as well as strategize how you can use life insurance as a financial protection tool or to help cover healthcare expenses in retirement.