ESTATE PLANNING:

BIG Estate ... Big Liquidity Needs

Life insurance can provide a variety of benefits for almost any individual; from replacing lost income for surviving family, to paying off a mortgage, to providing for the needs of dependent children. For those with significant assets, additional estate planning needs arise and life insurance may be able to help. Life insurance can play an important role in providing liquidity (cash) at death when faced with the following cash flow drains.

Access to cash is a key component of a successful estate plan.

CASH FLOW DRAINS THAT REQUIRE LIQUIDITY

Final expenses This category may be the most immediate liquidity need faced by the wealthy. These costs associated directly with an individual's death include end-of-life medical expenses, funeral expenses and unpaid debts.

Probate Next, the process of probating and administering an estate can include expenses such as attorney's fees, executor's fees, accountant's fees, appraiser's fees, court costs and other probate expenses.

Estate taxes Estate taxes may be problematic because of how quickly they are due after death. For example, the Federal estate tax is due just nine months from the date of death and the taxes must be paid in cash. There are two forms of estate taxes, sometimes referred to as "death taxes:

- **Federal estate taxes** Generally speaking, anyone who passes assets in excess of $5.49M to someone other than their spouse at death subjects their estate to Federal estate taxes. The tax rate? 40% on amounts over $5.49M.[1]
- **State estate and inheritance taxes** Although this number is always evolving, there are approximately 20 states that levy their own tax at death – sometimes the "estate" owes the tax (estate taxes) and sometimes the person inheriting the assets owes the tax (inheritance taxes). Some states tax both! The top tax rates vary from 15% to 20%.[2]

1 2017 Federal estate tax exemption. It is adjusted for inflation every year.
2 Does Your State Have an Estate or Inheritance Tax? The Tax Foundation, 2017

For more information, contact:
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Estate equalization Circumstances often exist where an estate consists of assets that are difficult to divide between heirs; such as a family business or a large real estate holding. In this situation, there may be a desire to keep the asset whole by passing it to one heir, while providing an equalizing inheritance to the remaining heirs using cash and other property.

Business succession When an estate contains ownership in a business or businesses, additional complications can arise at the death of an owner that additional liquidity can help solve. Cash may be needed by remaining owners to help them buy the business from the estate, ultimately providing the surviving heirs with needed cash. Also, the business itself may need cash to help keep the business running while new management and ownership changes are undertaken.

Charitable giving There are many strategies whereby the passing of assets to a charity can provide benefits for both the charity and the estate – particularly when a charitable gift helps reduce the size of the potential estate tax bill. An obstacle to these strategies may be an individual's desire not to "disinherit" their heirs by giving away property. This is where additional liquidity can help provide for that inheritance.

WHY LIFE INSURANCE?

- **Timing** Life insurance is differentiated among financial assets in that it provides liquidity (cash) promptly after death. Many of the needs described are time critical and must be addressed with cash fairly quickly.
- **Tax benefits** Generally, life insurance benefits are income tax free. They can be estate tax free as well, if set up in a trust designed to keep the life insurance out of the estate.
- **Helps avoid forced liquidation costs** There are those that may feel that the estate can simply "sell some assets" and use the proceeds to provide liquidity. But, there are three potential pitfalls to this thinking that life insurance avoids:
  1. **Taxes** Assets such as real estate or stocks often contain sizeable capital appreciation. Liquidation of these assets may result in capital gains taxation.
  2. **Sales expenses** Commissions, appraisals, fees and other expenses associated with the sale of an asset will reduce the net liquid value of the asset to the estate.
  3. **The "fire sale" discount** In order to generate the liquidity (cash) when it is needed, some may need to sell an asset in a hurry. This can result in a lower sale price, especially if the market for the asset is depressed at the time of the sale.
- **Cost/benefit advantages** Due to the way life insurance is constructed, it will usually return substantially more in death proceeds than the premiums paid; therefore helping pay for estate liquidity expenses at an attractive discount.

Unlike other financial alternatives, life insurance is well-suited to provide liquidity to meet the needs of those with large estates – making it an important consideration in any estate plan. Contact a licensed insurance professional to learn about the various types of life insurance that may apply to your estate liquidity needs.

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