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Life Insurance As A Baby Boomer Estate Planning Tool

By Rod Rishel

The youngest baby boomers will turn 55 in 2019. Many of them are still in the planning stages of their financial lives — seeking solutions to longevity challenges, estate planning needs or both. Many life insurance products are designed to address both types of challenges, but leveraging these solutions in the new year may help boomers transfer their wealth successfully.

The need is critical. Forty-two percent of baby boomers don't even have an estate plan, according to research by Caring.com. Other boomers have plans that are out of date. Yet, Americans are continuing to live longer and many boomers will also continue to accumulate wealth they'd like to pass to beneficiaries.

$30 Trillion Already At Stake

Boomers are the wealthiest generation in American history and are about to pass down those riches — some $30 trillion — over the next few decades. However, that exchange may not be as large as they had hoped if they don't take the right estate-planning steps.

For boomers with significant assets, additional estate-planning needs can 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.

Final expenses. This category may be the most immediate liquidity need faced by the baby boomer client. These costs, associated directly with an individual's death, may 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. The larger and more complex a boomer's estate, the more time-intensive and costly the probate process can be.

Estate taxes. Estate taxes may be problematic for a boomer's beneficiaries because of how quickly the taxes are due after death. For example, the federal estate tax is due just nine months from the date of death and, in most cases, must be paid in cash. The current top federal estate tax rate is 40 percent.

Additionally, a state estate and/or inheritance tax may be due. The number of states that levy an estate or inheritance tax is always changing, but according to the Tax Foundation, 18 states and the District of Columbia levy an estate tax or an inheritance tax (Maryland is the sole state with both levies) in 2018. Be sure to tell clients to consult a tax expert about their own circumstances.

Estate equalization. Estates often consist of assets, such as a family business or a large real estate holding, that are difficult to divide between heirs. In such situations, 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. The surviving owners of a business may need cash to help them buy the company from the decedent's estate, ultimately providing the surviving heirs with needed funds. Also, the business itself may need cash to continue operating while new management and ownership changes are undertaken.

Charitable giving. 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. However, an individual's desire not to "disinherit" his or her heirs by giving away property may present an obstacle to strategies that could benefit the charity. Additional liquidity can help provide for that inheritance.

Why Life Insurance?

Timing. Many of the needs described are time critical and must be addressed with cash fairly quickly. Life insurance is different from other financial assets in that it provides liquidity — cash — promptly after death.

Tax benefits. Generally, life insurance death benefits are free from income tax (based on current Internal Revenue Code). If set up in a trust designed to keep the life insurance out of the estate, the life insurance death benefit can be free from estate tax as well. Again, tell clients to consult a tax expert about their own circumstances.

Helps avoid forced liquidation costs. Some clients may point out that the estate can simply sell some assets and use the proceeds to provide liquidity. However, there are three potential pitfalls to this thinking that life insurance avoids:

1. Taxes – Depending on the assets that are liquidated and used to pay the estate tax, the sale may trigger a capital gains tax. Assets, such as real estate or stocks, often contain sizeable capital appreciation.

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 cash when it is needed, some assets may need to be sold 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, the death benefit proceeds generally may be larger than the premiums paid. Therefore, the death benefit proceeds may help pay for estate liquidity expenses.

A Fitting Solution

Life insurance is well-suited to provide liquidity to meet the needs of clients with large estates, making it an important consideration in boomer estate plans. And, with fewer years to establish a plan than Generation X or millennial clients, unretired boomers must have the right strategies in place.

Furthermore, as about 10,000 boomers turn age 65 each day — in addition to all those boomers turning 55 — financial professionals have seemingly unlimited opportunities to fulfill estate planning needs in the new year. But, where can your client start?

An Estate-Planning Checklist

Here are some estate-planning measures to review with boomer clients.

- Consult an attorney who specializes in estate planning who can provide advice and draft estate planning documents and engage any other needed advisors.

- Gather information on financial condition and future financial needs.

- Inventory all assets, liabilities, income and expenses.

- Determine the goals and objectives in estate planning (i.e., providing financial security for family, giving to charity, addressing potential taxation issues, etc.).

- With qualified advisors, formulate a plan designed to accomplish the goals.

- Ensure that the client has chosen his or her estate beneficiaries and, as desired, designated specific property or interests to distribute to each beneficiary.

- Encourage the boomer to select guardians to be responsible for the care and management of any minor children.
- Have the boomer prepare for potential incapacity by naming who will manage his or her property and make any needed health care decisions.
- If the boomer is using a will, ensure that he or she has nominated an executor to carry out its provisions.
- Review how life insurance solutions, including index universal life (IUL) policies, may be leveraged in the estate plan to provide for favorite charities, surviving beneficiaries or liquidity needs of the estate.
- If using a life insurance trust, help the boomer decide which assets will fund the trust.
- Have a trustee named to manage the trust property and administer the trust.
- If business interests are a part of the estate, plan for successor ownership and the disposition of the boomer's interests.
- Have the boomer consider making tax free gifts of up to $15,000 for single taxpayers or $30,000 for married couples (as indexed for 2018) during life by using the annual exclusion.
- Recommend that the client select a safe, accessible place, such as a lock box or a fireproof safe, to keep all estate planning documents. Have the client notify his or her attorneys and any other interested persons (including the executor) of the location of those documents.

The Big Picture

Many boomers can expect to live long lives and have wealth to share. The help you provide them in the coming year with planning for the successful transfer of that wealth may benefit their families and favorite charities for generations to come. •

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