

## Life Insurance

# Finance Guide: Perform a life insurance audit to claim 2012 benefits

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The tax legislation passed in 2010 has provided one of the most important estate planning opportunities for high net-worth individuals that has ever existed – the opportunity to shift up to \$5 million out of their taxable estates tax-free.

Although there are many ways to take advantage of the high gift-tax exemption in 2012, the possibility of upgrading, prepaying and guaranteeing life insurance coverage for estate planning purposes is proving to be one of the most popular.

For those who have existing individually owned life insurance policies, the higher gift-tax exemption in 2012 can provide an opportunity to easily and efficiently shift the insurance (and underlying cash value) out of the estate tax-free.

Before the \$5 million gift-tax exemption was available, the only way to purchase life insurance within an irrevocable trust without incurring additional gift tax (for those who had already used their previous exemption amount) was through complicated techniques that had the effect of minimizing the amount of premiums that could be prepaid into a policy each year. They also minimized the amount of death benefit that could be purchased and stretching the funding over a long period of time.

With the higher exemption amount, high net-worth individuals have an opportunity in 2012 to “prepay” or fully fund insurance policies with face amounts large enough to satisfy expected estate tax liabilities.

A common challenge of families with significant net worth is balancing philanthropy and the appropriate level of inheritance for future generations. Life insurance has been used for years to address this challenge in the form of the “zero estate tax plan,” the object of which is to avoid all taxes at death. This is accomplished by the purchase of a specific amount of life insurance for the benefit of children and other family and a specific bequest of the entire taxable estate to charity – often a family foundation. The use of life insurance to preserve an individual’s \$5 million exemption amount in 2012 can be a powerful and effective way to accomplish both tax and non-tax planning goals.

Even with the higher limits, individuals with a large estate should not minimize the importance of life insurance in their estate plan.

The tax characteristics of life insurance for both the death benefit and cash value make this a lucrative financial product, because growth and death benefits are not subject to income tax.

It is important to perform a life insurance audit before the end of the year to determine if your existing coverage is structured to take advantage of this year’s unique gifting opportunity and to assess whether additional life insurance planning is necessary.

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