

Life Insurance Uses That Appeal to Wealthy Clients



▶ Here are a few non-tax reasons your clients should secure life insurance.

By David E. Appel

Regardless of the size of your client's estate or the changes to estate taxes brought on by the new tax reform act, there are many "non-tax" reasons why your clients should keep an estate plan current, or maintain or secure new life insurance.

Planning for children with disabilities, charitable planning, legal incapacity, moving internationally, spendthrift children, asset or privacy protection from creditor claims and divorce, business succession, providing liquidity options, or family dynamics are just a few important factors your clients should keep in mind while planning.

Let's take a quick look at some of these non-tax reasons why your clients should secure and lock down a life insurance plan today and not wait until it's too late. As the title of my book *Buy Your Tomorrows Today* states, clients need to realize that they should secure life insurance while they are young and healthy. Waiting until they are older and dealing with difficult permanent health issues is not the ideal time to start shopping for life insurance coverage.

Children with Disabilities

Costs related to care for a special needs child or family member can be staggering and difficult to accurately account for. Moreover, who will care for or pay for the care of a special needs beneficiary when the primary caregiver dies? Funding a special needs trust with a life insurance policy can help replace the services of a caregiver and provide the funds to help supplement or enhance government benefits.

Charitable Planning

Life insurance can replace or replenish an inheritance from a large gift made to charity. In these cases, either the client can leave

the family whole by replacing the amount of their large gift with a life insurance policy or they can use some of their regularly scheduled annual donations and leverage some of those dollars with a life insurance policy naming the organization the owner and beneficiary of the policy.

Legal Incapacity

A long-term care event can have a drastic impact on an individual's overall retirement portfolio. Accordingly, a growing concern among many is how to pay for these expenses should the need arise. A life insurance policy with a long-term care rider can be an effective way to protect an individual's family and preserve their assets. The death benefit can be accelerated to pay for that care, protecting primary retirement assets. If care is not needed, the death benefit is fully preserved and can enhance the legacy that is left to the family.

Domicile Changes

Life insurance must be considered and/or reviewed if your client is a U.S. citizen living abroad, is on an expatriate assignment, or has decided to make an international domicile lifestyle change. Being a non-U.S. citizen with ties to the U.S. via family, a trust, and ownership in a U.S. company or property are also reasons to consider U.S.-based life insurance. There are many issues to address with these types of changes.

Spendthrift Children

There are multiple ways to deal with spendthrift children through trusts and other instruments by using the "control from the grave" language. But more importantly, a life insurance death benefit can replace assets inside an individual's estate, giving them the flexibility and freedom to spend down assets during their lifetime while still ensuring that their loved ones will receive an inheritance.

Asset/Privacy Protection

The structure and ownership of life

insurance are critical as part of overall planning. Who has access to equity or cash value during one's lifetime or who gets the death benefit at death are issues that must be considered upon inception and could possibly be changed in the future. If life insurance is properly structured, it can be protected from creditors and allow families privacy in the distribution of funds.

Business Succession

For many high net worth individuals, some or all of their estates may consist of business interests. Life insurance can provide a funding source for a buy-sell agreement for a smoother transition from one business owner to another or help provide liquidity to the family in transition. Without life insurance, the business and/or the surviving owners may not have the necessary liquidity to buy out the estate, placing strain on the decedent's family or business.

Provide Liquidity

A life insurance death benefit can provide liquidity at a time when it is needed the most. Here are a few ways life insurance can provide the requisite liquidity to help facilitate wealth transfer goals.

- » Pay final expenses such as funeral costs or extinguish debt.
- » Pay capital gains and income taxes on assets that do not receive a step up in basis such as capital gains taxes due on assets previously transferred to an irrevocable trust or individual retirement account or 401(k) assets.
- » Settle or equalize an estate among beneficiaries.

Family Dynamics

Life insurance can be used to equalize an inheritance in a blended family to help avoid discord at death. Also, estates can be made up of various assets, some of


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When A Disabled Child Predeceases The Parents

When using life insurance to fund a special needs trust, we assume the child will outlive the parents. A disabled child's life expectancy is a difficult topic to discuss. The parents want to know what will happen to the life insurance if the child predeceases them.

The new law eases the process, as parents can personally own the policy rather than the trust, with less estate tax concern. Parents usually appreciate the flexibility to re-purpose the policy's cash value or death benefit if they outlive their disabled child given high premium costs. This is much more difficult if the policy is owned by an irrevocable trust.

Another planning challenge for parents who care for an adult disabled child in their home is the impact of a long-term care event. One parent could end up caring for their spouse and child as a result. Life insurance within the estate not only permits the parents to access cash value to pay for long-term care or other emergencies, it also allows a policy to have a long-term care rider for the parents.


Planning for the future is a challenge for any parent, but these challenges are greater for families with special needs where the future may be unclear. Having maximum flexibility in the planning process makes the decision-making process easier. Although there are no guarantees that the unified credit will remain at the current level when a parent dies, it is one less thing to worry about today. 

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which — such as business interests, real estate and art collections — are harder to divide than others. A life insurance death benefit can help equalize an estate and ensure equity among all beneficiaries.

Estate planning is about so much more than estate “tax” planning. Legacy planning is all about hopes, dreams and providing protection to those the deceased loved and the causes close to their heart. Life insurance can help to enhance that legacy and facilitate numerous wealth transfer goals beyond estate tax planning. Don't allow your client to leave it to chance. 

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