

## The Looking Forward Series: June 2014

This month we are featuring an extended article by one of our partners, Gwen Baker, on overlooked uses for life insurance.

### Overlooked uses for Life Insurance by Gwen Baker

When most people think of life insurance they often think of income replacement- providing protection for a family or for someone who is dependent on someone else for support. This is a very important use but life insurance is a tax-advantaged product with other, often overlooked uses such as:

- 1.) **Taxes:** Life Insurance contracts pay out within 30 days of death and when structured properly the proceeds are tax-free. Life insurance proceeds can be utilized to pay federal estate taxes, state estate taxes, and other final expenses such as executors' fees. Hard assets, such as real estate and stocks, bonds, or closely held stock held in the estate do not have to be sold under duress to raise capital to pay taxes.
- 2.) **Replacement of Charitable Gift Assets:** In a complex estate plan where assets are donated to charity either at death or in a Charitable Remainder Trust or Charitable Annuity, Life Insurance can replace the asset donated so the family can receive their full inheritance and the donor doesn't have to choose between leaving something to their family and to a charity; they can do both. Our office can provide more assistance and details on this.
- 3.) **Pensions:** Life Insurance can help in the case of underfunded pensions in a corporate application by having the company add life insurance as a component of the plan and having the life insurance proceeds pay into the plan as participants die to make up the short fall.
- 4.) **Private Pensions:** Most Qualified pensions, 401K's, 403B's and defined benefit plans or profit sharing have limitations on contributions and costs associated with reporting to the IRS on an annual basis and all qualified plans are taxable upon distribution. With an insurance policy designed to build cash accumulation through index equity products the money inside the policy grows tax-free, and then upon retirement money can be distributed tax-free for a period of years while retaining a death benefit. Again our office can help structure and further explain this.
- 5.) **Loan Guarantees and Protection:** Life insurance can serve as a backstop for corporate loans that are personally guaranteed by the owners in businesses. Often loan covenants require life insurance, but sometimes are triggered by the untimely death of the personal guarantors. Life insurance can help in these cases.

6.) **Buy-Sell-Partnerships:** Life insurance can be purchased by partners in a business and made payable to the business partner in the case of their untimely death so the company is not put at jeopardy with the loss of a key person and the families of a partner can be bought out.

7.) **Loans in an emergency:** Cash value life insurance can be accessed in an emergency for extra money, usually very quickly and the loan does not have to be paid back as a cash advance or loan against a qualified plan would have to be. It's an extra incentive since many people do not have enough liquid savings.

These are just a few other solutions where life insurance can be a useful tool and is not the traditional income replacement or "just" the death benefit. Since death is inevitable, and comes to all, and life insurance is a necessity for everyone, it's important to keep in mind the additional advantages that life insurance offers while you are alive.

Outside article this month from our friends at the AALU.

#### Transfer from Life Insurance to Another Exempt Asset Protected in Bankruptcy

Summary: An Iowa federal bankruptcy court ruled that exempt life insurance cash values received during bankruptcy and used to pay down the mortgage of the debtors' homestead kept their character as exempt assets.

For Further Reading: [http://www.gbfinancial.com/publication/transfer-from-life-insurance-to-another-exempt-asset-protected-in-bankruptcy/wppa\\_open/](http://www.gbfinancial.com/publication/transfer-from-life-insurance-to-another-exempt-asset-protected-in-bankruptcy/wppa_open/)