Episode #179: The Important Role of Life Insurance in Estate Planning

Video Transcription

Hi, welcome to this week's episode of "Money Script Monday." My name is Laurence Williams. Today, we're going to be talking about the important role of life insurance in estate planning. Many of you out there have done a tremendous job growing and accumulating wealth within your estate. What if I told you that if you pass away, the government could come in and take half of the value of your estate's worth in the form of estate taxes? You probably wouldn't feel too good. What if I told you that there's a simple solution by simply taking a portion of your assets today by purchasing a life insurance policy. When you pass away, that life insurance policy can pay for your estate taxes while keeping your estate completely intact.

If you're anything like me, you never want to have to pay any additional money in taxes if you don't need to. What most people want to do is they want to be able to transfer that wealth in the most tax-efficient way possible. If we could do that by using stocks or bonds or mutual funds, we absolutely would do that, but we can't. It just so happens that life insurance is one of those vehicles that allow us to do it in the most tax-efficient way possible. Life insurance oftentimes has been called the Swiss army knife of estate planning because it provides so many different solutions that other financial instruments simply can't solve. Before we get into life insurance, let's talk about one key component that should be included in every estate plan if you were to ask me. That is a living trust.

A living trust is an agreement that you're able to set forth by creating an entity that allows your wants and wishes to be executed at the time you pass away. There are many benefits, but we're just going to go over a few, and that is keeping your estate private and under your control by protecting your family and leaving a lasting legacy, and to help avoid probate. By keeping it private and under your control, by setting up a living trust, it allows you to control what happens to your estate when you're no longer here. Unfortunately, if you are forced to go through probate, that whole process is completely public. By creating a living trust, that keeps your estate private within the family or whoever is part of your estate.

Next is being able to protect your family and leaving that lasting legacy. Losing a loved one is never easy. With this stress, it can bring out the worst in people. By setting forth the trust and the rules and regulations of your estate, there isn't anything to bicker about because you've already made the decisions on how your estate will be handled.

Lastly, avoiding probate. Probate is simply the process of the government managing your estate. There are a lot of moving parts. There are court fees, an executor. There are creditors that all need to be paid prior to ultimately the beneficiaries taking over your estate. Oftentimes, this process can be lengthy. It can take anywhere between two and three years sometimes. Having a living trust set in place can help expedite the transfer of wealth and ultimately give you control over that while you are alive.

Next, we're going to get a little bit into life insurance. Before we do that, I do want to talk about some of the estate taxes and what's called an inheritance tax. It's no surprise to any of you out there that taxes are going up. If you ask most financial professionals, they'll tell you that we're at an incredibly low tax rate right now, even though sometimes it doesn't feel like it. On top of that, the estate tax has changed over the years. One area that this new administration has talked about taxing is estate tax. That's something that you want to be mindful of today. If we're assuming taxes will go up in the future, we need to be mindful of how that's going to ultimately affect our state down the road.

The IRS 706 form. If you've ever lost somebody, most likely a parent and you've been in charge of their estate, you're familiar with this form. This is a form that's required for any beneficiary of the estate that requires you to basically itemize every single thing that has comprised of that estate basically all the way down to your last pair of shoes. What happens is you submit that form and anything that's over the exclusion is considered an estate tax which you have to pay. Lastly, there is tax legislation. This is something that we know that the legislation- taxes will most likely be going up. The reason why estate taxes are a place that legislators are going after is because you really can't complain when you're no longer here. It's an easy way for them to collect revenue, and they're doing that by taxing for the people's estate.

Lastly, we're going to talk about how to protect, preserve, and grow your estate. One of my most favorite vehicles to do this is by using a max funded indexed universal life insurance policy. It's very simple. The contributions that you make into your indexed universal life policy go in and they're credited based on how the market performs. The great thing about this is that if the market takes a tank, your policy doesn't suffer. You simply are credited as zero for that year. However, if the market does well, you participate in some of that growth. We've typically seen anywhere between 5%, 6% year after year. In some years, we've seen some policies be credited 10% or 11%. It does a great job at protecting and preserving that principle of your money while also giving you a sense of predictable income. As your policy is then credited year after year, that cash value grows tax deferred. As that money grows, it's growing tax-deferred and then ultimately, you have that tax-free death benefit.

As we talk about a max funded indexed universal life, it offers protection with the death benefit. We're able to preserve that cash value that's built up because we're not ever losing money in that, and then we're able to grow by creating that predictable income along with that tax-free cash flow. For some of these, we've seen some policies go up to hundreds of thousands of dollars of tax-free benefits. If you think of a family, that could be used for college funding. That could be used for vacations. It's a great way to be able to transfer wealth to the next generation.

I'll leave you with a quote from my Uncle Gary. He told me that there are only two things that are certain in life. One, eventually we're all going to pass away. And two, there's always going to be taxes that need to be paid. The choices you make today will ultimately affect the generations to come. Do you want your heirs to have to burden those estate liabilities after you're gone and have to liquidate your estate to have to pay those? Or would you rather take a portion of your assets today to purchase a life insurance policy so that that life insurance policy can pay those estate taxes while leaving your entire estate completely intact for future generations? The choice is ultimately yours. I want to thank you for watching. We'll see you next time.