2025 ADVANCED SALES FORUM

*Explore, Inquire, Innovate*

# Beyond Taxes - Planning with Life Insurance

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# Agenda – Non Tax Uses of Life Insurance

- Qualified Plans
- Roth Conversions
- Blended Families
- Intergenerational Transfers
- Planning with a Family Business
- Protecting Legacy Assets
- Charitable Wealth Replacement

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# Planning with Qualified Assets

## Challenge posed by Income in Respect of a Decedent (IRD)

- Includes items of income earned or accrued during life but not received until after death
- Most frequently seen as final compensation or commission income, and retirement accounts

## IRD can be subject to double taxation

- Income received is taxed to recipient as ordinary income
- Value of IRD assets included in valuing estate
- Deduction is available to IRD recipient for estate tax paid with respect to IRD
- Not capital asset; no stepped-up basis is available

# Planning with Qualified Assets

Married Couple

Large qualified accounts

Want to leave to children

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# Planning with Qualified Assets

Buy second-to-die policy

At second death, receive death benefit tax-free

Death benefit pays estate taxes, replaces confiscated wealth, covers tax on IRD, etc.

# Roth IRA Conversions

## Roth IRA
### Highly desirable by beneficiaries

- No requirement for RMDs
- Distributions are tax-free

## Conversion
### Complicated rules for beneficiaries

- Converting from traditional IRA to Roth IRA triggers income tax
- Surviving Spouse *can* convert an inherited traditional IRA to a Roth
- Non-spouse Beneficiary (e.g., adult child) *cannot* directly convert

# Roth IRA Conversions

Married Couple buys two single-life policies

Surviving Spouse converts inherited IRA to Roth, uses DB to pay income tax

DB could also be used to convert Surviving Spouse's traditional IRA

Roth IRA left to beneficiaries, remaining DB can help beneficiaries pay tax on traditional IRA income

# Planning with a Blended Family

## Challenge posed by a blended family

- Client has two competing interests – surviving spouse and children from another marriage
- QTIPs help

## However, QTIPs can also amplify the problem

- Surviving spouse receives income and access to principal
- Children must wait until surviving spouse passes to receive under the trust
- This causes friction with competing interests of preserving assets and spending assets

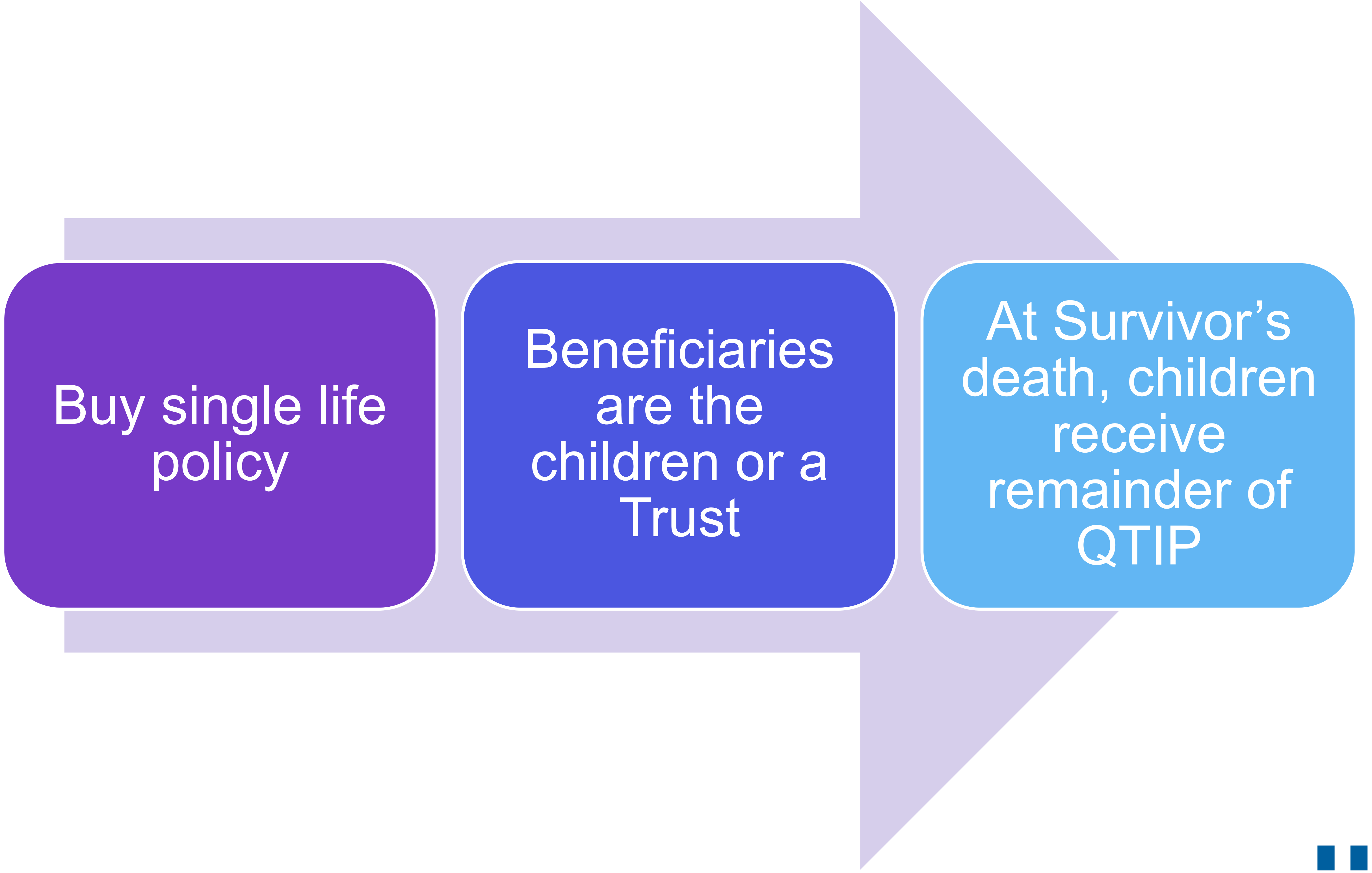
# Planning with a Blended Family

Second Marriage

Children from Previous Marriage

Competing Interests

# Planning with Blended Family



# Intergenerational Transfers

## Client's Goal

- Protect liquidity from estate and generation-skipping taxes
- Create a generational entity for continued planning

## GST Trust

- Irrevocable
- Separate Shares
- Holds life insurance on each generation

# Inter-generational Transfers

Irrevocable Trust purchases life insurance on each generation

Each branch of the family tree has a separate share for each beneficiary – this satisfies insurable interest

Initial funding covered with client's exemptions

Future funding allowed from death proceeds from previous generation

# Planning with a Family Business

## Challenge posed by multiple successors

- Client dies with a family business, multiple children and one child who works for the business
- Client wants to be “fair”

## Focus on definition of “fair”

- Equity vs control
- Success of business moving into the next generation
- Provide for proper distribution

# Planning with a Family Business

Family Business

Client wants to be Fair

Other assets won’t suffice

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# Planning with a Family Business

Buy life insurance policy

Trust owned or individually owned

Insurance equalizes the inheritance

# Protecting a Legacy Asset

## Client's Goal

- Protect a legacy asset that require upkeep
- Example – family cabin, beach home

## Trust

- Irrevocable
- Owns the legacy asset
- Holds life insurance to provide liquidity to maintain the property

# Protecting a Legacy Asset

Trustee of Irrevocable Trust purchases life insurance on the client

Trust is built for maintenance of the asset, not just insurance ownership

Consider control issue carefully

Trust is funded with gift of asset and premium for policy

# Planning with a Charity (Wealth Replacement)

## Challenge posed when a charity receives

- Client, either during life or at death, provides for a charity
- Client believes this takes away from children

## Plan to replace the amount received by the charity

- From the onset of planning, use life insurance
- Consider the source of the charitable funds to provide premium
- Consider an irrevocable trust to control and keep out of estate

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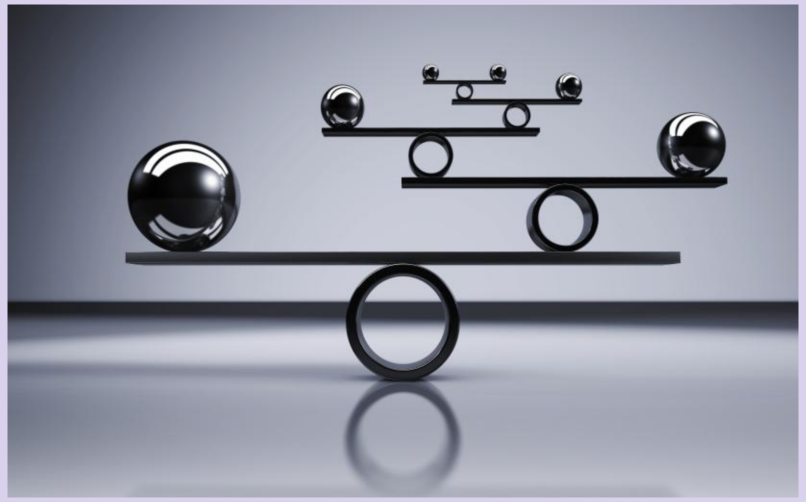
# Planning with a Charity (Wealth Replacement)

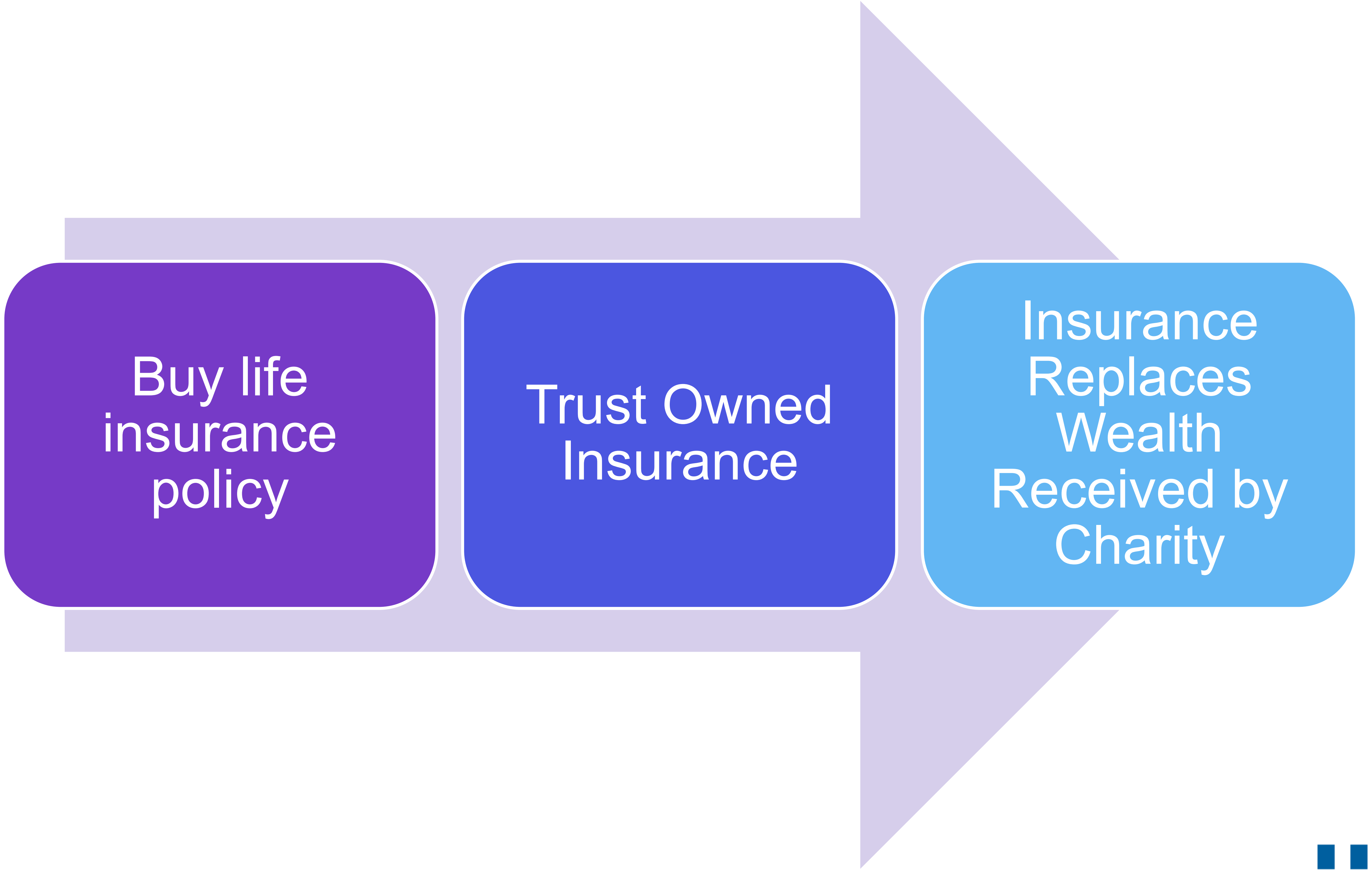


Strike the balance

Charity and Children Benefit

Plan from the Beginning

# Planning with a Charity (Wealth Replacement)

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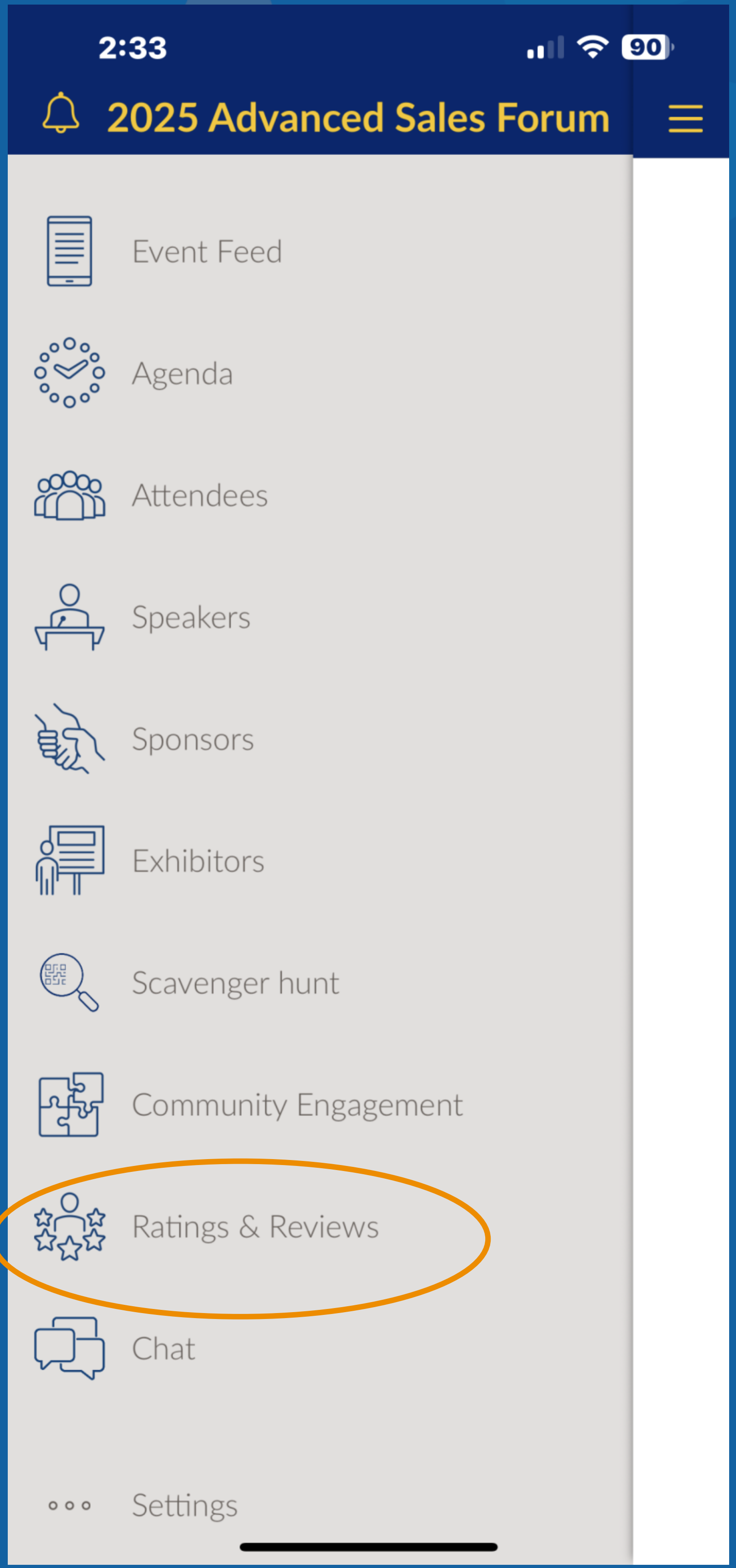
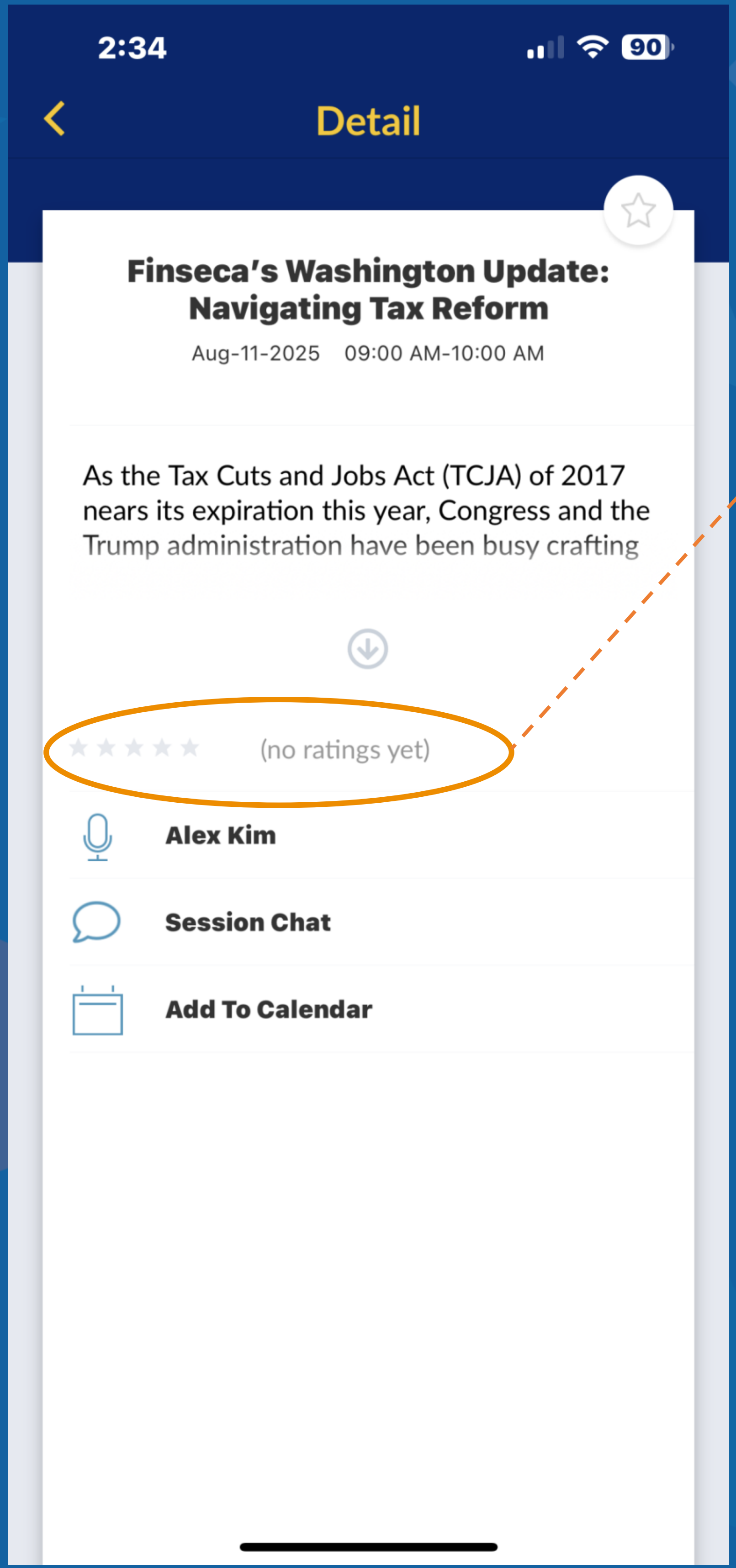
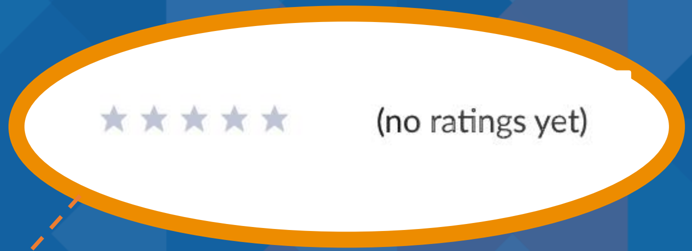
# Take Aways

- Life Insurance solves for more than taxes
- Consider other uses such as preservation, wealth replacement, equalization

# Please Provide Your Feedback on the Conference App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# Thank You

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