Life Insurance as Part of Estate Plan

For young families, life insurance can be a great help in replacing lost income. But as people get older, it can also serve as part of an estate plan.

Historically, one main reason to buy life insurance as part of an estate plan was to have cash available to pay estate taxes. Now that the estate tax exemption is so large (in 2017, estates can exempt $5.9 million per individual from taxation, increased from $5.45 million in 2016), most estates do not pay federal estate taxes, and the present administration would like to eliminate the estate tax entirely. However, life insurance can still be helpful in a number of other ways:

- **Providing immediate cash.** Life insurance provides cash to use for the payment of debt, burial or estate administration fees. In addition, life insurance can be used to pay state estate taxes, if applicable.

- **Replacing wealth.** Life insurance can replace income or assets lost to pay for long-term care. It can also be used to fund a trust for a minor child or a child with special needs.

- **Buying out business interests.** Life insurance can allow a partner or a family member to buy out the deceased partner’s interest in a closely held business to insure the business can continue.

- **Funding a charity.** Proceeds from a life insurance policy can be used to fund a charity. The policy can be donated directly to the charity, which also has the benefit of giving the donor a charitable income tax deduction. Alternatively, the charity can be named as the beneficiary of the policy.

- **Treating family equally.** A life insurance policy can be used to make sure children receive an equal inheritance. For example, if one child is inheriting a certificate of deposit, a life insurance policy can ensure that the other child receives the same amount.

To find out if you should include life insurance as part of your estate plan, talk to your estate planning attorney.