

Life Insurance and Estate Planning

Wealth Managed to a Fiduciary Standard

At RDM, we help you coordinate what is often multiple financial goals (wealth accumulation, retirement income, legacy planning, etc.) through a maze of tax, legal and investment possibilities. It is critical to understand, develop and implement effective, long-term strategies that align with your objectives and prepare you for the future.





Life Insurance and Estate Planning



Life insurance has come a long way since the days when it was known as burial insurance and used mainly to pay for funeral expenses. Today, life insurance is a crucial part of many estate plans. You can use it to leave much-needed income to your survivors, provide for your children's education, pay off your mortgage, and simplify the transfer of assets. Life insurance can also be used to replace wealth lost due to the expenses and taxes that may follow your death, and to make gifts to charity at relatively little cost to you.

To illustrate how life insurance can help you plan your estate wisely, let's compare what happened upon the death of two friends: Frank, who bought life insurance, and Dave, who did not. (Please note that these illustrations are hypothetical.)

Life insurance can protect your survivors financially by replacing your lost income

Frank bought life insurance to help ensure that his survivors wouldn't suffer financially when he died. When Frank died and his paycheck stopped coming in, his family had enough money to maintain their lifestyle and live comfortably for years to come.

And since Frank's life insurance proceeds were available very quickly, his family had cash to meet their short-term financial needs. Life insurance proceeds left to a named beneficiary don't pass through the process of probate, so Frank's family didn't have to wait until his estate was settled to get the money they needed to pay bills.

But Dave didn't buy life insurance, so his family wasn't so lucky. Even though Dave left his assets to his family in his will, those assets couldn't be distributed until after the probate of his estate was complete. Since probate typically takes six months or longer, Dave's survivors had none of the financial flexibility that a life insurance policy would have provided in the difficult time following his death.

Life insurance can replace wealth that is lost due to expenses and taxes

Frank planned ahead and bought enough life insurance to cover the potential costs of settling his estate, including taxes, fees, and other debts that his estate would have to pay. By comparison, these expenses took a big bite out of Dave's estate, which had to sell valuable assets to pay the taxes and expenses that arose as a result of his death.

Life insurance lets you give to charity, while your estate enjoys an estate tax deduction

Using life insurance, Frank was able to leave a substantial gift to his favorite charity. Since gifts to charity are estate tax deductible, this gift was not subject to estate taxes when he died. Dave always dreamed of leaving money to his alma mater, but his family couldn't afford to give any money away when he died.



Life insurance won't increase estate taxes — if you plan ahead

Before buying life insurance, Frank talked to his attorney about the potential tax consequences. Frank's attorney told him that if his estate was large enough, it could be subject to federal and state estate taxes, depending on the applicable law at the time of his death. Frank and his attorney put a plan in place that would allow Frank's survivors to use his life insurance policy to help pay for some of the potential estate taxes that might be owed at his death.

Be like Frank, not like Dave

Throughout his life, Dave worked hard to support his family. Frank did, too, but went one step further — he bought life insurance to protect his family after his death. Here's how you can be like Frank:

- Use life insurance to ensure that your family has access to cash to help them meet both their short-term and long-term financial needs
- Plan ahead — buy enough life insurance to cover the potential costs of settling your estate and to ensure that the assets you leave to your survivors aren't less than you intended
- Consider using life insurance to give to charity
- Consult an experienced attorney about income and estate tax consequences before purchasing life insurance

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