

The Role of Life Insurance in Legacy Planning

Life insurance plays an important role in legacy planning because of its unique features:

- **Self-Completion/ Immediate Cash:**
 - The policy's death benefit is paid in cash upon the death of the insured (for single-life coverage) or upon the death of the survivor-insured (for survivorship coverage) as long as the contract is in force, regardless of the policy year.
 - Provides a "time hedge" for other estate tax "freeze" strategies to work.
- **Tax Efficiency. If positioned properly:**
 - The death benefit is free of income, estate and generation skipping tax¹.
 - The cash value accumulates income tax free.
 - Cash value withdrawals are treated on a first-in-first-out (FIFO) basis, therefore cash value withdrawals up to the total premiums paid are generally income-tax free.
 - Policy loans are income tax free.
 - A life insurance policy may be exchanged for another life insurance policy (or for an annuity) without incurring current taxation.
- **After-Tax Death Benefit Rate of Return** (*higher for life insurance than assets of comparable risk*):
 - Upon pre-mature death: Significant
 - At life expectancy: 4% to 5.5% range – *guaranteed* for no-lapse guaranteed coverage. (In the 6.66% to 9.16% rate - guaranteed pre-tax return, assuming a 40% income tax bracket)
 - At life expectancy + 5 years: 3% to 4% range – *guaranteed* for no-lapse guaranteed coverage.

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- Fund federal and state estate taxes for estates with valuable non-liquid assets such as real estate, business interests, farms, art collections, etc.
- Protect against the untimely liquidation of assets when the market is down.
- Provide a legacy for family members and charities.
- Replace wealth gifted to charities.
- "Equalize" inheritances for children not involved in a family business.
- "Equalize" the inheritances of blended family members.
- Assure that each descendant of large families receives a meaningful inheritance.
- Care for children and grandchildren with special needs.
- Repay outstanding debt.

¹ For federal income tax purposes, life insurance death benefits are generally paid income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include but are not limited to the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e., the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j). @2021

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Life Insurance Funding Strategies

- Annual Exclusion Gifts
- Lifetime Exemption Gifts
- Distributions from Qualified Retirement Plans
- Intra-Family Loans at the Applicable Federal Rate (AFR)
- Sale to an Intentionally Defective Grantor Trust (IDGT) (Gift and Loan Combination)
- Self-Cancelling Installment Notes (SCINs)
- GRAT Remainder
- Proceeds from Value Realizing Event (Sale or IPO)
- Commercial Premium Financing
- Business Paid Premiums (Executive Bonus / Split Dollar)
- Business Split Dollar Loans
- Private Split Dollar Loans

What's the Urgency?

- Clients have more time/ interest to plan.
- Health may deteriorate/ Long term effects of COVID.
- Insurance pricing is increasing.
- Some life insurance products will no longer be available.
- Takes 6 -12 weeks to put in force.
- A Trust requires legal counsel which can take 4 – 6 months.

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Important Disclosures

This document is designed to convey accurate and authoritative information concerning the subject matter covered and should not be construed as tax or legal advice. Likewise, information supplied by life insurance companies and other sources is believed to be accurate. However, no information is guaranteed unless labeled as such. Information is provided with the understanding that Gateway Financial Group, Inc does not engage in the practice of law, or give legal, tax, accounting or investment advice. For advice in these areas, including the attached information and its application to specific transactions, please consult your appropriate advisors.

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Life insurance policies include certain non-guaranteed elements, including premiums, credited interest rates, values, charges, etc. Non-guaranteed elements are not guaranteed by definition. As such, life insurance carriers reserve the right to change or modify any non-guaranteed element. This right to change non-guaranteed elements is not limited to a specific time or reason. Life insurance policies are issued by unaffiliated third-party insurance companies. Guarantees are based on the claims-paying ability of the issuing insurance company.

It should be understood that policy performance may be affected either positively or negatively, by changes in market conditions, including interest rates and equity valuations (if applicable), by premium payment amounts and frequencies, and by policy charges.

When considering the purchase of a no-lapse guarantee policy, policyowners should consider the value of higher non-forfeiture benefits versus the level of the premiums required to keep their insurance coverage in force. The death benefit guarantee provided by a no-lapse guarantee product is subject to the claims-paying ability of the issuing insurance carrier.

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