

## Maximizing Your Insurance Benefits

Understanding the threat of estate taxes on your life insurance proceeds is the first step in protecting these funds from unnecessary taxation. The next steps are determining the appropriate ownership of your policy and selecting a proper beneficiary. Although there are other alternatives, a life insurance trust can help avoid potential threats to the policy's proceeds.

### What Threats Exist Besides Estate Taxes?

Several factors may come into play that could undermine the financial security provided by the proceeds of your life insurance policy. Beyond estate taxes, there is the potential for probate, gift taxes, financial mismanagement, and misuse. Proper planning is necessary to help avoid these threats.

#### Ownership Options\*

Other than owning the insurance yourself, there are three practical options for the ownership of your life insurance.

**Your spouse.** If you choose your spouse to be the owner and beneficiary of a policy on your life insurance, the proceeds of the policy will be subject to estate taxes and perhaps probate administration when he or she eventually dies. In addition, he or she will be responsible for investing the proceeds of your policy. Make sure your spouse is prepared and has the willingness to handle these additional responsibilities.

**A child.** Naming a child as owner and beneficiary can lead to problems if the child lacks the experience for such a designation. You must be able to rely on him or her to maintain the policy and avoid letting the policy lapse. In addition, because your child will be the legal owner of the policy proceeds, you must be sure that he or she will be willing to supply necessary funds to the estate to settle taxes, fees, and other expenses.

**An irrevocable life insurance trust.** An irrevocable life insurance trust can help avoid threats to your policy's proceeds. Because the designated trustee must manage the trust for your benefit, it helps ensure the availability of liquid funds when they are most needed. And because the trust is irrevocable and is the owner and beneficiary of your policy, the proceeds escape estate taxes in most cases. The trust arrangement allows the proceeds to avoid probate administration and can sanction the professional management of the proceeds to help ensure the livelihood of your survivors. The use of a life insurance trust can provide an opportunity for families to utilize the benefits of their life insurance.

Keep in mind that the cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing this strategy, it would be prudent to make sure that you are insurable. As with most financial decisions, there are associated expenses with the purchase of life insurance. Policies commonly have contract limitations, fees, and charges, which can include mortality and expense charges. Most have surrender charges that are assessed during the early years of the contract if the contract owner surrenders the policy; plus, there could be income tax implications. Any guarantees are contingent on the claims-paying ability of the issuing company. Life insurance is not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association.

The use of trusts involves a complex web of tax rules and regulations. You should seek the counsel of an experienced estate planning professional before implementing such a strategy.

\* A taxable gift from the owner to the beneficiary may result when the owner, the beneficiary, and the insured are all different parties. To reduce the threat of gift taxes, the owner of the policy should be the beneficiary of the policy.

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