



Purposeful planning: Considering whether life insurance fits within your wealth plan?

Two steps to help you decide whether life insurance is right for you and your family

A well-constructed and comprehensive wealth management plan involves the periodic evaluation of your goals and objectives. Such evaluations can often lead to the conclusion that a life insurance program, when structured and monitored properly, can play an integral part in your overall wealth management plan.

Owning life insurance can be an important strategic step in caring for your loved ones, especially those who depend on you for their financial support. It can help protect and transfer the wealth that you have earned or accumulated over your lifetime, as well as assets gained from investment activities. Life insurance can also be an effective tool to provide liquidity to cover estate taxes, replace lost income, eliminate debt or provide for specific needs.

1. Consider the purposes of life insurance

The estate, gift and generation-skipping transfer (GST) tax exemptions are \$15 million per individual in 2026 and will be adjusted for inflation after 2026. However, even with these higher exemptions, it is still important to understand the purposes of life insurance and whether it is an appropriate tool for you and your family.

Life insurance can play a significant role in estate and tax planning in several ways, including:

- Satisfying estate tax liabilities—Life insurance can provide immediate liquidity at death to help replace wealth lost to payment of estate taxes, or to help avoid a forced sale of assets, such as closely held business interests or concentrated stock positions.
- Managing trust taxes—Proceeds from life insurance owned inside an irrevocable trust could be used to help pay trust income taxes on assets that are sold or liquidated following the grantor's death. Insurance proceeds could also be used to help satisfy mandatory or discretionary distributions to trust beneficiaries in order to avoid selling assets and recognizing income.
- Coordinating business and estate plans—For business owners, life insurance can play a critical role in helping to successfully transfer business interests after an owner dies and can help equalize the distribution of assets among family members who participate in the business and those that do not.

Proactive insurance planning today offers several benefits including:

- Securing your insurability based on current health—A change in health down the road could significantly affect the cost of insurance or even your ability to purchase insurance in the future.
- Pricing that favors younger applicants—Each year you wait, the cost of insurance increases.
- Funding premiums in a currently favorable environment—The current high gift tax exemption may help fund premiums for life insurance that will be owned in trust.

2. Review existing and proposed policies

As you contemplate whether to purchase new life insurance, or are reviewing existing coverage, consider the following:

- What is the policy's intended purpose? Your needs and objectives can vary with your circumstances and may include:
 - Having a young family that depends on your income
 - Having a blended family, which may include children from different marriages
 - Anticipating a large estate tax liability
 - Owning a business
- How much insurance should you carry? The amount and type of coverage will depend on your objectives and long-term needs, but should consider:
 - The purpose of the coverage
 - The time frame for coverage
 - The amount of flexibility you may need to skip or change a premium or reduce coverage in the future.
- How should premiums be funded? There are several different methods available to fund premiums, including:
 - Outright gifts
 - Loans to the trust that owns the life insurance
 - Use of existing trust assets

If you already own life insurance, it is important to regularly evaluate your coverage to ensure that the policy and the death benefit meet your needs and goals. Given the long time horizon that insurance is often owned, the “need” for insurance can change significantly over the course of ownership. For example, clients who have sufficient wealth may no longer need insurance originally purchased for income replacement but could repurpose the death benefit to now cover estate taxes. Before stopping premiums on existing coverage or surrendering a policy, speak with a planning professional about your options and the possibility of replacing the coverage for a new need.