

Are You Adequately Covered with Life Insurance for Estate Taxes?

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For high-net-worth individuals and affluent families, life insurance is more than a safeguard in the event of an untimely death—it's a crucial tool for preserving wealth across generations and ensuring an estate can efficiently cover anticipated estate tax liabilities. As one's financial circumstances evolve and their estate grows, so does their exposure to estate taxes, which can significantly impact the value of their assets. With the federal gift and estate tax exemption currently set at \$13.99 million per individual, life insurance can help bridge the gap between one's estate's value and potential tax obligations, preventing heirs from having to liquidate valuable assets to cover these taxes. Additionally, as tax policies shift, estate tax exemptions and rates may change, which makes it essential to regularly assess one's life insurance coverage to ensure it aligns with their long-term financial objectives.

Factors to Consider When Reevaluating Your Policy

1. **Coverage Amount:** Life insurance should be tailored to not only cover one's current living expenses and future obligations but also anticipated estate taxes. Ensure that your policy is sufficient to offset any federal estate tax liabilities both today and projected for the future, so your family can retain

wealth without needing to liquidate assets or take on additional debt.

2. **Policy Type:**

- **Whole Life or Universal Life Insurance:** These policies provide a death benefit and the potential for cash value accumulation, making them ideal for long-term planning, especially when integrated into an estate planning strategy to offset estate tax burdens.
- **Term Life Insurance:** While more cost-effective for temporary needs, term life insurance may be insufficient for long-term estate tax protection. It's important to assess whether converting or supplementing your coverage might provide more comprehensive estate tax coverage.

3. **Policy Ownership:** The way your life insurance policy is titled can significantly impact your estate tax exposure. If the policy is owned **individually**, the death benefit is generally included in your taxable estate, potentially increasing estate tax liability. In contrast, if the policy is owned by an **Irrevocable Life Insurance Trust (ILIT)**, the death benefit is typically excluded from your estate, helping to reduce estate tax exposure. This strategy allows the life insurance proceeds to cover estate taxes without increasing your estate's taxable value.

4. **Premiums:** Are you paying competitive premiums? As your needs evolve, it's worth reviewing your existing policy to see if you're paying for coverage that aligns with your current estate planning strategy. Converting an old policy or shopping for a more suitable plan could optimize your coverage and reduce unnecessary costs.

5. **Integration with Your Estate Plan:** Life insurance should be a central component of your estate planning strategy. It's critical to evaluate how your policy fits with your overall financial plan, including tax implications, estate tax planning, and business succession strategies. Life insurance can serve as a strategic tool to protect your legacy and ensure the smooth transition of wealth to your heirs without triggering unwanted tax liabilities.

Regularly Reevaluate Your Coverage to Safeguard

Your Legacy

Life insurance is a flexible and powerful estate planning tool that can help high-net-worth individuals protect their wealth, minimize estate taxes, and ensure that their loved ones are provided for. By conducting regular policy reviews, individuals and families can ensure that their coverage evolves with their financial goals, helping leave a lasting legacy for future generations.

For more information or to discuss specific planning needs, contact your Anchin Relationship Partner, or [Jared Krim of Claris Advisors LLC](#).