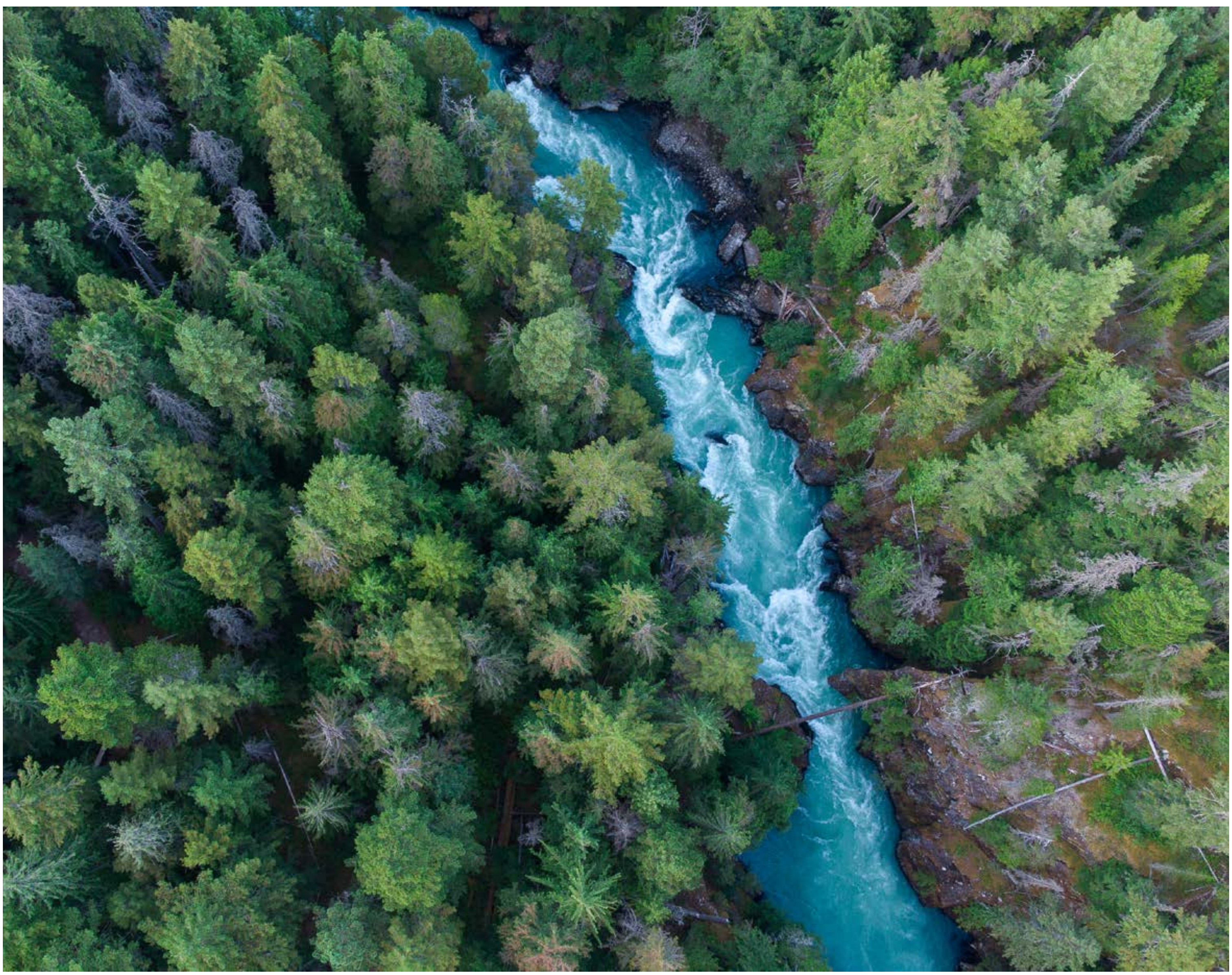
PRIVATE WEALTH MANAGEMENT

The family guide to life insurance.

Learn why life insurance is a crucial element of your financial plan.



Do you really need life insurance if you've worked hard and built the wealth you want to transfer to your survivors?

Like many high-net-worth families, you might assume the answer is, "No, I don't need life insurance once I've achieved a certain level of wealth." Insurance is generally viewed as an income-replacement tool at a time in life when children are young, when carrying higher levels of debt, and when income or a business is growing. But once children graduate from college, the wealth is established and the debt is paid down, the policies that were acquired for protection may seem irrelevant.

Before you dismiss the need for life insurance, ask these questions:

- Will any member of your family lose a needed stream of income, either from a business, your salary, or family trusts?
- Are there debts you wish would be paid off to alleviate the burden to your family?
- Will your estate owe significant estate taxes? If so, will there be liquidity to pay the tax? Would your survivors be forced to sell a family business or property to pay the tax?
- If you own business interests or real estate, might your family want to sell those interests if you die? If one child will be given the company or a property, would you like to provide equal inheritance to multiple beneficiaries?
- Do you want to leave funds to charity, but worry about drawing funds away from your family?
- Are you looking for a way to fund retirement above the funding limits of qualified plans and traditional IRAs?

Surprise: Life insurance planning is especially important for high-net-worth families.

As your wealth grows, so does your need to protect the value of your earning potential and to protect your net worth. For wealthy families in particular, life insurance is necessary not only for protection, but also as a diversification tool.

Life insurance holds a prominent place in an estate planning strategy. It provides a mechanism to generate liquidity when your estate or business needs it. Consider the situations below.

Income replacement

As your lifestyle and wealth become more complex, your need for ongoing cash flow increases. There will be rising costs of maintaining multiple homes and future acquired assets. How will you sustain the lifestyle you and your family are accustomed to, and what if your lifestyle increases?

Cash needs

After your death, it can be months or years before your family has full access to your estate. Resolving the costs of your last illness or paying estate taxes can be burdensome to your family, particularly if you own significant illiquid assets such as a business or real estate. Death benefit proceeds can satisfy this need, avoiding the need to liquidate holdings. Insurance helps survivors focus on the grieving process, rather than making hasty, untimely financial decisions to settle tax debt.

52%

The percentage of Americans with life insurance is about 52%, including individual and workplace life insurance.[1]

The number of Americans who believe they don't have enough life insurance has more than doubled since 2010.[1]

[1] Chauncey Crail, "Life Insurance Statistics, Data and Industry Trends 2023," *Forbes Advisor,* January 2, 2023.

Wealth replacement

Estate taxes can erode wealth. Life insurance, typically involving layering on trusts, can be a less complex way to recoup assets for beneficiaries.

Funding charitable goals

You may be considering making an impactful charitable gift, but worry about drawing wealth away from your heirs. However, you can donate life insurance to charities and use its proceeds to fund charitable objectives. Nonprofits can be beneficiaries of life insurance, and proceeds can fund charitable trusts. In each instance, you can meet your charitable goals while also taking advantage of income tax benefits. This strategy helps to preserve both the tax deduction associated with the charitable gift and the wealth.

Equalization

Life insurance is a viable way to promote financial fairness among heirs. Certain assets, such as a residence or a business, can present administrative and practical challenges for multiple owners. Leaving a single asset in its entirety to specific heirs can create inequality and give rise to conflict. In circumstances like these, liquidating the asset may not be feasible. Life insurance, however, can provide the flexibility to adequately compensate heirs, which can promote greater family harmony.

Other possible uses

Permanent life insurance can supplement retirement income if you want another place to park tax-advantaged money. (Life insurance is "**tax-favored**," meaning the cash value that accumulates in the insurance is not currently taxed and death benefits are received income-tax-free.) This concept is particularly true if you have maximized tax-exempt contributions to other tax-favored accounts such as 401(k) plans and individual retirement accounts. How? Let's say you need an additional $10,000, but taking an additional distribution from a traditional IRA would bump you to another tax bracket. A withdrawal from a cash-rich life insurance policy wouldn't increase your taxable income; however, be aware that withdrawals reduce a policy's death benefit.

Whole life insurance is often viewed as an asset diversification tool. Whole life operates similar to bonds with potentially less risk. Cash value grows within your life insurance policy and will earn a competitive return without the risk of capital loss that you have with bonds.

Types of insurance.

The type of life insurance you implement will depend upon your unique circumstances. Relevant factors include liquidity needs, cost factors, and the size of your estate. The two broadest types of life insurance are **term** and **permanent**.

Term insurance is what its name implies. It terminates after a set time—typically in 10, 20, or 30 years. It has no cash value and is the most cost-effective policy. It is renewable, potentially convertible, and may even be able to be sold to a third party to liquidate for current needs. Most importantly, it carries a guaranteed payout if premiums are paid. Term insurance is useful when secondary uses of cash value are unimportant.

Permanent insurance comes with various benefits, depending on the type of policy. There is potential to accrue cash value. Premiums can be fixed or flexible. There is potential for a return on investment and it can be structured with no-lapse guarantees. In return, these products are more costly and can be subject to inflation risk. Permanent insurance is subdivided into classes such as whole, universal, second-to-die (survivorship) no-lapse guarantee universal, equity-index universal, and variable universal.

Life insurance products

Type	Benefits	Drawbacks	Primary use
Term insurance	Most cost-effective	No cash value	Income protection
	Renewable	Fixed coverage period	Business succession plans
	Convertible		Debt coverage
	Secondary market liquidity		
	Guaranteed payout		
Permanent insurance	Cash value	More expensive	Estate planning
	Fixed or flexible premiums	Subject to inflation risk	Asset diversification
	Dividends		Cash value accumulation
	Possible no-lapse guarantees		Targeted inheritance

Insurance can make the difference: An example

John and Judy Smith have a taxable estate of $27 million, of which $25 million is composed of the family business and illiquid real estate. They anticipate a current exposure to estate and inheritance tax of $2.5 million. If something were to happen to them, they would have insufficient liquidity to pay the estate tax. This might put pressure on the heirs and the estate to sell illiquid assets or business assets at the wrong time. **A $2.5 million life insurance policy, insuring both of their lives, would eliminate the liquidity issue and build flexibility into the estate plan.** Even if their assets were more liquid, they may not want a portion of their estate to be eaten up by taxes, so the death benefit from the insurance policy would serve to replenish the estate for their heirs.

Other ways to plan using life insurance.

Irrevocable life insurance trust (ILIT)

On a basic level, insurance proceeds are **includible in your estate**. ILITs are irrevocable trusts designed to hold one or more life insurance policies outside of your estate if you meet specific, easy-to-accomplish, administrative guidelines.

Life settlement/premium financing

If you have considered insurance before, but you no longer need or want a policy, there are alternatives to the surrender or lapse of a life insurance policy. Life Settlement is an ideal option for the 65 and older community or an individual whose health may have declined. The face value of a policy can become worth more than the cash value and may have marketability in a secondary market. This strategy often is accompanied by a "premium finance" overview, which provides high-net-worth people a lending vehicle to fund the purchase of a life insurance policy.

Long-term care riders

The cost of healthcare increases as we age and long-term care (LTC) insurance is designed to meet that need. A stand-alone policy, however, provides no benefit if it goes unused. It may make sense to consider a hybrid life insurance policy with a long-term care rider. You can draw down to fund long-term care needs and beneficiaries get a remainder value at your death.

Split-dollar arrangements

Most split-dollar plans are between an employer and employee, and allow for the sharing of the cost and benefit of a permanent life insurance policy. Some plans can be set up between individuals (sometimes called private split-dollar) or with an ILIT.

International planning

If you frequently engage in foreign travel, reside overseas or live in the U.S. on a temporary basis, insurance carriers will react differently. Be prepared to deal with increased scrutiny from underwriters, as well as pricing and compliance concerns.

Employer-owned life insurance (EOLI)

Often owned by a business to insure against the loss of a key employee or an owner.
There are special considerations for EOLI policies, such as notification and consent from the insured employee.

Protect the future with life insurance in your plan.

As a part of a comprehensive approach to wealth management, we believe that properly structured life insurance is an important piece of wealth transfer and wealth preservation strategies. Though it is often not a priority for today, life insurance should receive the same focus as your investment strategy or retirement planning—it goes to the heart of protecting what matters: your family. When considering your options, consult with your wealth manager and life insurance professional.

Learn more.

Visit seic.com/privatewealth or call your Private Wealth Management team at 888-551-7872.

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