Mariner
WEALTH ADVISORS

How to Use Insurance Strategically

Maximize the Wealth Your Heirs Receive

Consider talking to your wealth advisor about the following insurance-related strategies to allow you to maximize the wealth you can transfer to heirs.

Tax Advantages of an Irrevocable Life Insurance Trust (ILIT)

Think of using insurance as an alternative way to benefit from a step-up in cost basis at death. To fund an irrevocable life insurance trust (ILIT), you could take a penalty-free distribution from a traditional IRA after age 59½, pay the tax on the distribution and, with the remaining cash, buy a life insurance policy housed inside an ILIT.

When beneficiaries own the life insurance policy within the ILIT, it prevents estate tax on the life insurance proceeds. The trust controls the payout to beneficiaries beyond the account owner's lifetime.

Using RMDs to Purchase Permanent Life Insurance

You can use required minimum distributions (RMDs), which begin at age 72, or pre-RMD distributions, to purchase life insurance for yourself or for yourself and your spouse by using after-tax dollars from an RMD to pay for an insurance policy. That policy can then be passed to heirs who could use the death benefit when needed to pay taxes on withdrawals from 401(k) plans and traditional IRAs. It's also a way to take advantage of potentially being in a lower tax bracket today and to be able to leave more to your heirs.

Private Placement Life Insurance

Another tool for wealth transfer is a private placement life insurance (PPLI). You won't pay income tax on the investments held by the PPLI. This type of insurance may be appropriate for wealthy families, family foundations, trusts and corporations that want to work with money management firms to create their own life insurance contracts, designed to reduce their tax burdens. A PPLI combines the tax advantages of life insurance with the flexibility to in invest in a wide range of investment products.

Keep in mind, there are insurance and administrative costs associated with the life insurance contract, but the tax savings in a properly structured life insurance policy, plus the death benefit itself, should make up for the additional insurance and administrative costs. You have to have a certain level of net worth and income to qualify for this unregistered security product, so consult with your wealth advisor to determine if a PPLI is appropriate for you.

Legislation Makes Insurance Solutions Attractive

An historic change was made to IRS rules for a "life insurance contract" in the Consolidated Appropriations Act of 2021. The rule reduces the guaranteed insurance rate for cash value accumulation for 2021 from 4% to 2% in a life insurance contract, and a variable rate will be used thereafter.

The implication is that you can put a lot more premium/cash into a life insurance policy in relation to the death benefit than was previously allowed. Many of the wealthiest U.S. taxpayers are turning to guaranteed life insurance policies to provide liquidity in their estates to have available cash to cover taxes and estate administration expenses that might otherwise require the forced sale of illiquid assets at an inopportune time. Besides liquidity for an estate, life insurance offers a death benefit that can be structured as tax free in both term and permanent policies and tax-deferred growth of cash value in permanent policies.

Meet With Your Wealth Team

Using insurance as an estate planning tool is just one way to maximize the wealth you transfer to heirs. At Mariner Wealth Advisors, our in-house insurance team will work closely with you and your wealth advisor to review your current insurance policies and recommend insurance solutions as part of your overall wealth plan.

Our estate planning and trust services team is also in-house to work with your advisor, our insurance team and outside legal counsel, to help you build an estate plan and trusts that work for your financial situation.

For more information visit: marinerwealthadvisors.com

"How Does Private Placement Life Insurance Work?"

"Using Life Insurance to Cushion Blow of Estate Taxes"

"New Law Changes May Make Life Insurance More Attractive"