Life Insurance

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If estate planning was only about dividing up assets, and all estates consisted only of cash, estate planning would be simple. But since reality doesn't work that way, proper planning becomes essential.

Estate planning consists of many things. The best and shortest definition of a good estate plan that I've heard is:

1) A plan that allows you to control everything that you have, for as long as you want or are able to.
2) A plan that provides for you in the event of a disability, and your spouse in the event of your death.
3) A plan that allows you to pass on what you have, to whom you want and the way you want.
4) A plan that does this at the cheapest cost possible. Life Insurance can help.

Occasionally when I am working with my clients, one of them will say something along the lines of "If I die then ----", I am always quick to gently remind them, that it is not if they die, but rather when they die and that their passage will not only leave a hole in the hearts of their family, but in their business as well.

Life Insurance cannot fill that emotional void left when a loved one passes, but it can provide the means to make sure that your loved ones can grieve your passing, and celebrate your life without worrying about what will become of them and the business when you are gone. It is not purchased for the benefit of the dead, but for the living to provide financial security for the people and things you care about. For pennies on the dollar a Life Insurance policy cannot only give peace of mind to the insured/owner that their loved ones will be well cared for and their business will survive. This in turn can allow the family the opportunity to move forward with security and strength because life insurance creates dollars at the very time it is needed most.

-Life insurance allows your spouse to be confident that they will be financially secure.
-Life Insurance can provide the dollars to provide for children not involved in the business, so that children or heirs that are involved in the family business do not have to be worried about how to buy out their siblings. These siblings, who may not have spent most of their adult life in the business, but none the less, expect their portion of the whole.
-Life Insurance can pay off business debts, debts that may have stifled the ability to exploit the opportunities of the business to grow, expand and diversify.
-Life Insurance can create dollars outside the estate to pay probate, estate taxes and other finale expenses.
-Life Insurance can fund a trust for a special need's child, or endow your favorite church, college or other charity.

I have been involved in many estate plans, and the need for estate planning is not measured by how large the estate might be, but rather in the desire to preserve, build and protect the people, things and ideals, most dear to an individual.

Over the years of my involvement in estate planning and Life Insurance sales, I have developed a mental check list that I go through before involving myself too deeply in the planning process:

1) Is there an estate worth saving?
2) Is there a desire to save it?
3) Is there somebody, or something to save it for?
4) Is there the ability to save it?

The first three (3) points are an individual assessment made by the estate owner, and it is not based on the size of the estate. If the first three (3) points are answered in the affirmative, usually the ability to save the estate can be structured, and Life Insurance can help.

I have never delivered a Life Insurance proceed check to a widow or widower who told me I knew it was too much Insurance. But while the casseroles and baked goods of friends and relatives are going stale, the death claims I have delivered mean the difference between financial uncertainty and financial stability.

When estate owners pass away and challenges arise:
1) How do we pay the federal estate taxes?
2) How do we buy out deceased partners' shares?
3) How do we buy out interest of non-participating siblings?
4) How do we pay off business debt and position the business for growth?

There are only a few ways these problems can be solved:
1) If your estate is fortunate enough to have liquid reserves in the bank, an investment portfolio, or other liquid assets, they can simply pull the money out and pay the bills. But this means that your family loses 100% of the principle plus the interest or income that it would have produced.

2) Your heirs can maybe borrow the money to meet these obligations, but this means that even if the business can absorb the additional burden of the loan, it will still have to be paid back. 100% of the principle plus 100% of the interest.

3) Your heirs might be able to sell something to raise the cash to meet obligations, but if it's to pay estate taxes, this money must be paid within nine months of the date of death, and the IRS does not take cattle or land or equipment. They want cash and if your estate is selling land or some other asset that might not move quickly, they may have to discount the sale price to sell within the nine-month period. In any event nobody goes to an auction expecting to pay full. Under this option not only does your family and estate lose the value of the asset, and its productive value, but they would probably have to take a significantly reduced price if sold at an auction or under duress.

4) The way that many of these estates deal with these problems is to use discounted dollars now, to deliver a large sum of money at the time it is needed most. Life Insurance is one of the simplest and most effective tools to solve large cash needs and make plans work effectively. The estate pays a premium each year, the premium is generally less than an interest payment would be on a similar sum of borrowed money, and your family and/or estate never has to pay back the Principle.

To use an agricultural analogy, consider the Government Rat Hole. We all know what a Rat Hole is, it's a place where once you put something in it, and it never comes back. If your estate is faced with the choice of either throwing a cow down the government rat hole or a bucket of cream down the rat hole, which choice makes the most sense? Obviously you would throw the cream down, because if you throw the cow down the Rat Hole you lose both the cow and the cream. That is the idea behind Life Insurance you skim off some of the cream to preserve the cow.

Proper planning and the use of Life Insurance go hand and hand together. Knowledgeable professionals can help devise a structure that meets your goals and protects your loved ones, and life insurance in the proper place can help.