

Estate Planning Bulletin

Bridge Life Insurance Could Save Your Estate Plan from the Financial Abyss

Decreasing Wealth and Liquidity Can Destroy an Estate Plan—
Term Life Insurance May Be Able to Save It

Individuals who have seen their portfolios plummet, their retirements postponed and their businesses severely challenged certainly do not need more bad news. But current economic conditions can do more than destroy investments and challenge a business. Much to their surprise, many individuals may now find that their estate plans are in jeopardy because they no longer have sufficient assets or liquidity to achieve their financial and personal objectives. Fortunately, there is an easy fix to this estate planning problem—simply purchase term life insurance now and keep it in force until the market and economy recover.

The Problem

Reduced wealth and lack of liquidity can prevent an estate plan from working as originally intended. For instance, a surviving spouse may inherit significantly less than originally anticipated, an amount that may not be sufficient to maintain his or her lifestyle. A child whose inheritance is linked to a family business may receive less than his or her siblings if, like most businesses today, the family business is suffering. And, if part or all of an estate consists of illiquid assets, such as a closely held business, there may not be enough cash to cover estate taxes, administration expenses or charitable and cash bequests.

The Solution

Life insurance as part of an estate plan has traditionally served a number of functions, including replacing wealth lost to estate taxes and administration expenses and providing financial security for surviving family members. In today's economy, it can serve a new function. Life insurance can bridge the financial gap between the current economic downturn and the eventual recovery. A life insurance policy can replace lost wealth and liquidity should the insured die before the market recovers. The death benefit can be used to pay estate taxes, cover expenses or provide for loved ones in the manner originally intended. Although any type of insurance policy may be used for this purpose, term life insurance is particularly attractive because of its relatively low cost.

Example 1: When Dan and Amanda drafted their estate plan, their net worth was approximately \$8 million. Their estate plan allocates the largest portion of the estate to a trust for the survivor (which would allow the survivor to maintain his or her current lifestyle), a significant amount to their children and a smaller amount to be used for college tuition for their grandchildren. After a tumultuous 2008, Dan and Amanda's estate is now valued at approximately \$5 million. They are concerned that if something happens to them before the market recovers, there will not be enough assets or liquidity in the estate for their estate plan to work. Dan can set up an irrevocable life insurance trust that will purchase a term life insurance policy.

Based on his age and health, Dan can get \$3 million of coverage over a five-year period for approximately \$5,200 per year. At a relatively low cost, Dan can ensure that, if he dies before the market recovers, the life insurance proceeds will enable his and Amanda's current estate plan to achieve their financial and personal objectives.

The proceeds from a life insurance policy can also prevent a situation where beneficiaries otherwise would need to sell estate assets to generate cash to cover estate taxes, administration expenses and bequests. This is particularly critical in today's market because most major assets would have to be sold at a loss.

Example 2: Richard's estate consists of a business, his house and marketable securities. Richard's estate plan provides that his son Brad will inherit the business, his daughter Debbie will receive the house and the securities will be sold to cover estate taxes, administration expenses and some charitable bequests. The securities recently lost much of their value. Richard is concerned that if he dies before the market recovers, Brad may be forced to sell part of the business or Debbie may have to sell the house to cover taxes, expenses and bequests. Selling either the business or the house under current conditions would not be easy. Because both assets would most likely be sold at a loss, Brad and Debbie would receive significantly less than Richard had originally planned. If Richard purchases a term life insurance policy now, he can ensure that, if he dies before the market recovers, his estate will receive sufficient cash to allow Brad to maintain the business and Debbie to keep the house.

Do Not Forget Your Estate Plan

During the past year, many have focused on their investments, businesses and retirement plans. But few have considered the negative impact that current market and economic conditions can have on their estate plan. In many cases, even a well-crafted estate plan may no longer achieve financial and personal objectives. By creating wealth and liquidity, a term life insurance policy can save an estate plan. However, to ensure that term life insurance achieves personal and financial objectives in the most efficient tax manner, proper estate planning is critical. In many cases, an irrevocable life insurance trust should be used to acquire and own the policy in order to avoid estate tax on the death benefit.

If you have any questions as to how term life insurance might be used to save your estate plan, please contact any member of the Vedder Price Estate Planning Group to discuss your estate plan and insurance options.

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For questions about estate planning opportunities created by the current economic environment, please contact any member of the estate planning group.

About Vedder Price

Vedder Price P.C. is a national, business-oriented law firm with over 260 attorneys in Chicago, New York and Washington, D.C.

The Estate Planning Group

Vedder Price P.C. has long recognized the importance of estate planning and has been at the forefront of this changing area of the law. The firm's practice has both a national and an international scope. Vedder Price attorneys combine technical experience in all aspects of estate and financial planning, with a strong appreciation of personal objectives and concerns in servicing clients in this uniquely personal area.

The firm represents clients with diverse personal objectives and financial interests, including individuals with large estates, individuals with personal situations requiring special planning, owners of closely held businesses, corporate executives and professionals. Vedder Price estate planning attorneys also represent executors, administrators, trustees and guardians. In addition, the firm provides estate and financial planning counsel to businesses and not-for-profit organizations, as well as other professionals who consult Vedder Price with respect to their own clients.

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