

Creative Uses for Life Insurance

According to a new study from LIMRA and Life Happens, two nonprofit industry trade associations, a record-high number of American adults—approximately 102 million—either do not have life insurance or do not have enough coverage.¹

Misunderstandings about how much life insurance costs and what type to purchase are the largest barriers to purchasing a policy. Even among those with a life insurance policy, there are knowledge gaps about how it can be used to meet their financial and estate planning goals.

Two Types of Life Insurance for Estate Planning

About half of US adults (52 percent) report having life insurance coverage.² Forty-two percent acknowledge a coverage gap, while 37 percent say they intend to purchase coverage in the next year.³ You may wonder where you fall on the life insurance continuum.

There are two types of life insurance to consider when engaging in estate planning:

- **Term life insurance** pays out a death benefit if you pass away during the policy's "term," typically 10 to 30 years.
- **Whole life insurance** remains in effect for the entirety of your life and can build cash value over time.⁴

Several variations exist within these two types of policies, each providing different benefits at different price points. Life insurance policies designed to meet specific purposes, such as those that cover loan balances and final expenses and those that insure two lives (for example, first-to-die and second-to-die policies), are also available.

Life Insurance Perks You Might Not Know About

On the surface, life insurance is a straightforward financial product: you pay premiums in exchange for a tax-free cash benefit that the insurance company pays to your loved ones after your death.

Most people who buy life insurance do so because they have financial dependents. However, life insurance policies can also provide important benefits to the policyholder. From married couples with kids to couples without children, empty nesters, retirees, business owners, and investors, life insurance can provide several perks you may not have thought about.

Here are some creative ways to fit life insurance into your estate plan:

- **Funding a trust.** Maybe you have a child with special needs or another dependent who requires ongoing care or support. You may want to set aside money to help fund a child's education, first home, or travel. Or, like many modern families, you may have a

¹ *U.S. Life Insurance Need Gap Grows in 2024*, LIMRA (Apr. 15, 2024), <https://www.limra.com/en/newsroom/news-releases/2024/u.s.-life-insurance-need-gap-grows-in-2024/>.

² Jennifer Lobb, *Life insurance statistics and industry trends 2024*, USA Today (Jan. 24, 2024), <https://www.usatoday.com/money/blueprint/life-insurance/life-insurance-statistics/>.

³ *U.S. Life Insurance Need Gap Grows in 2024*, LIMRA (Apr. 15, 2024), <https://www.limra.com/en/newsroom/news-releases/2024/u.s.-life-insurance-need-gap-grows-in-2024/>.

⁴ Cash value is the portion of a life insurance policy that accumulates over time and may be available to the policyholder to withdraw or borrow against during their lifetime.

blended family with you or your spouse having children from previous relationships. You could even have a beloved pet you want to ensure is cared for if you pass away unexpectedly.

Each of these situations—and many others—can be well-served by naming a revocable or irrevocable trust as the beneficiary of your life insurance policy rather than an individual beneficiary or beneficiaries directly. Funding a trust with life insurance proceeds allows you to set terms on how the money is used and provide for the unique needs of your loved ones. An irrevocable life insurance trust can also avoid probate and may, in some circumstances, reduce estate taxes.

- **Paying taxes and debts.** For the most part, your debts do not just disappear when you die. In addition to any outstanding creditor claims and income taxes that may be due upon death, dying can trigger estate and inheritance taxes that, if not planned for, can easily drain your estate. You can purchase life insurance to cover your estate's tax payments and other debts and eliminate the need to liquidate your accounts or sell illiquid assets (like a business or art collection) to satisfy these claims.
- **Equalizing inheritances.** The death benefit of a life insurance policy can be used to help equalize the inheritances for multiple heirs when you would like to give each beneficiary equal value but have assets you do not want to liquidate (for example, a family business, family home, or cottage) to truly make things even. For example, if one child wants to keep the family vacation home and the other wants to sell it, you can gift the home to the former and buy a life insurance policy equal to the home's value to benefit the latter. As another example, if you want to give your family business to a child who works in the business but have no assets or insufficient assets to give your other children, a life insurance policy can give an equalized inheritance to those other children.
- **Making philanthropic donations.** Nothing says you have to name a loved one as a life insurance policy beneficiary. Your policy, in part or in whole, can be a gift to a charity or a nonprofit organization. However, before structuring a life insurance policy to benefit a charitable cause, check with the organization to ensure all applicable procedures are followed.
- **Paying final expenses.** It is not just the cost of living that has gotten more expensive. Funeral and burial expenses are also surging and can easily run \$8,000 to \$10,000 or more.⁵ Further, approximately 6 percent of US adults owe over \$1,000 in medical debt, which may still be owed at the time of a person's death.⁶ A specialized type of life insurance policy, or final expense life insurance, can be purchased to cover end-of-life expenses like funeral and medical bills.

⁵ Rebecca Lake, *How much does a funeral cost in 2024?*, USA Today (Apr. 10, 2024), <https://www.usatoday.com/money/blueprint/life-insurance/how-much-does-a-funeral-cost/>.

⁶ Shameek Rakshit, et al., *The Burden of Medical Debt in the United States*, KFF (Feb. 12, 2024), <https://www.kff.org/health-costs/issue-brief/the-burden-of-medical-debt-in-the-united-states/>.

How to Fit Life Insurance into Your Estate Plan

Life insurance, like estate planning, is for everyone. No matter your stage of life or circumstances, adding life insurance to your estate plan can give you and your loved ones flexibility to deal with expected and unexpected expenses in the future.

If you are one of the more than 100 million Americans facing a life insurance coverage gap, we can help you and your trusted advisors craft a plan to bridge that gap with policy advice that fits your needs, situation, and budget. Schedule a meeting with our attorneys to discuss how life insurance can strengthen your estate plan.