The "Whole" Truth on Estate Planning

BY BARBARA TREADWELL

Nothing beats whole life insurance for providing security and flexibility in estate planning. Perhaps that sounds like an overly broad and bold statement. But I believe it wholeheartedly, and 25 years of experience has proven it true time and again.

Why does it work so well, especially in estate plans for the affluent? There are a number of reasons, not the least of which is that whole life's permanence creates a foundation upon which estate plans can be built today and amended tomorrow due to changing circumstances.

Typically, those plans seek to:

- Build and preserve wealth for use in retirement.
- Transfer wealth to family members or loved ones while minimizing confiscatory taxes.
- And do so all while retaining enough flexibility to respond to future unforeseen circumstances, such as rising inflation; declining interest rates; or higher income tax rates, not to mention change in relationships, reversal of fortune, or volatile family dynamics.

On all three points, whole life insurance answers the bell.

First, whole life, like other permanent insurance products, offers tax-deferred build-up of cash values. Those cash values can supplement income in retirement and, from a planning perspective, enable clients to be more aggressive with their investment assets. The whole life policy can represent the "bond" portfolio in an asset allocation study. For the client who has less than anticipated at retirement, the whole life policy also provides freedom to spend down savings if necessary and still be able to transfer wealth to children or loved ones via insurance.

Furthermore, whole life's steadily increasing value grows along with a client's assets and inflation over time – it is not static. This increased value is critical when we consider a level death benefit severely diminishes purchasing power 20 to 40 years in the future.

Additionally, while dividends are not guaranteed, they can provide a resource which the policyholder can receive in cash, or use to purchase additional insurance to increase the policy's death benefit and cash value, or to offset some or all of the future premiums due. This last point is not to be taken lightly. Few people — particularly retirees — want to be paying large insurance premiums forever.

Second, whole life is a great insurance planning vehicle to assure estate equalization between heirs, implement business continuity plans, and establish legacies for loved ones and favored charitable organizations. Again, whole life's permanence makes a critical difference, giving policyholders assurance their wealth will flow to the next generation or fund another objective.

Third, used properly, whole life can provide flexibility to respond to future unforeseen circumstances. If the married insured owns his own policy and names his spouse as beneficiary, he will create flexibility and control that can respond to changing circumstances over time.

The policy owner enjoys certain rights, such as assigning ownership as collateral or borrowing money from the policy. If the policy is a non-direct recognition policy, the policy owner will still enjoy the benefit of the full dividend. Rather than "locking up" insurance in an irrevocable trust, this approach lets the second spouse receive life insurance proceeds "triple tax-free" — without gift, estate or income taxes — when the first spouse dies.

Result: The surviving spouse has greater flexibility and opportunity to plan for the remainder of his or her life. The proceeds could pay for long-term care, be used as a hedge against inflation, or be used to pay gift taxes to get assets out of the estate at the first death.

Conclusion

The premium for whole life insurance may seem higher at first glance when compared to other products. However, encouraging the prospective insurance buyer to look at his assets and liabilities, income and expenses with a "holistic" bird's eye view can be illuminating and beneficial. The power, control, flexibility and long-term growth of whole life insurance will very often offset the upfront cost.

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