Estate Planning

When the Simple Answer Is Too Simple

by Don See, CLU

In any discussion of estate planning issues, the subject of funding for estate liquidity is bound to come up sooner or later. (I might even be the one to mention it.) The theory is that it is often better and less expensive to pay estate costs and taxes for the estate rather than paying them from the estate.

One heavily promoted approach is to use a joint second-to-die (survivorship) policy which insures two people at an apparently lower annual cost with the death benefit deferred until both people have died. The argument is that this provides the cash when it is really needed (at the second death) since the Unlimited Marital Deduction allows deferral of estate taxes until then. While this is sometimes good planning, there are times when other considerations dictate a different solution.

Estate plans that leave all assets to surviving spouse simply defer and increase the tax.

- ❖ Older clients with responsible older children may want to accelerate inheritance at the first death, thereby removing future appreciation from the surviving parents' estate.
- ❖ Couples who have been previously married and who have separate financial interests may prefer to preserve their assets for their own children rather than leaving them to a current spouse.
- ❖ The unlimited marital deduction is not a Constitutional right. If it is limited or repealed, there could be taxes at the first death.

Financial statements can be fickle. "Things change."

- ❖ The surviving spouse may need or desire supplemental income no matter how large the estate.
- ❖ Many second-to-die policies being offered will not allow for unwrapping of the coverage if the rules change or do so at an additional cost.
- ❖ If you are uninsurable when you experience a change in income needs, tax laws, or circumstances (like divorce), it may not be possible to do anything about the fact that the second-to-die coverage can not be restructured to meet your new objectives.

There is a perception that second-to-die policies are cheaper.

- ❖ The fact is that a smaller annual premium must be paid for a longer time period, that of both lives.
- ❖ Cost analysis often reveals that the total cost can be greater for the second-to-die policy.

It is important to remember that although there is one scenario under which the simple solution of joint second-to-die coverage is ideal, under all other possibilities, individual coverage allows your clients to retain flexibility and control of their insurability. Giving up these two key features may well entail risk your clients will not want to take once they understand the implications.

Anyone who is interested in reviewing the cost analysis mentioned in this article should contact Don (or Misty) at Pass It On, Inc. at 800-790-8320