ASH BROKERAGE

Estate Planning

QUALIFIED RETIREMENT PLAN MAX–REALLOCATING TAX-INEFFICIENT ASSETS

When life insurance is utilized as part of your overall estate plan it is important to determine the most efficient manner in which to fund the policy. There are numerous income, estate and gift tax issues that need to be considered in making this determination. Other factors that may come into play include the level of flexibility and control that is desired, current interest rates and pending legislation. Whatever funding alternative is chosen it is important that the arrangement works in tandem with any other tools or techniques you have implemented to accomplish your estate planning goals. The following is a brief summary of a number of common life insurance funding alternatives.

Annual Gifts

The IRS allows you to make annual gifts of $14,000 to any individual without paying gift tax or using up your lifetime exemption. A married couple may split their annual gift tax exclusion and gift $28,000 to any individual every year. When a life insurance policy is owned by a third party (such as an irrevocable life insurance trust - ILIT) you may make annual gifts which can be used to pay the life insurance premiums.

Lump Sum Gifts (Utilizing the Lifetime Gift Tax Exemption)

If the premiums for the needed life insurance coverage exceed the annual gift tax exclusions, or when these exclusions are already being used, you may still make tax free gifts by applying your lifetime gift tax exemption. Every individual may make lifetime gifts up to $5,340,000 in 2014 without paying a gift tax.

Qualified Retirement Plan Distributions

Due to federal income and estate tax treatment of qualified retirement plans, your 401(k), profit sharing plan or pension plan may be reduced by as much as 75% upon your death. Taking taxable distributions during your lifetime and using those after tax dollars to pay life insurance premiums will in most cases maximize the amount passing to your heirs.

Premium Financing (Third Party Commercial)

In some cases it may not make financial sense to make gifts to pay life insurance premiums. This may be the case when premiums exceed the amount that can be gifted free of gift tax or when you would be pulling dollars out of assets that are achieving high returns. Another alternative would be to borrow the money to pay the premiums. There are numerous "premium financing" programs that have been developed that allow you to use borrowed funds from a commercial lender to pay life insurance premiums. Each program has different collateral requirements, payback terms and interest rates.

Private Financing

Similar to the commercial premium financing programs mentioned above, another alternative is private financing. The main difference in private financing arrangements is that the insured acts as the lender and loans money to a third party (often an irrevocable life insurance trust) to pay the premiums. Such an arrangement allows for more flexible terms than a typical commercial premium financing program.

Private Split Dollar

Private split dollar arrangements are another technique for making substantial premium payments while reducing or eliminating gift taxes, removing the policy from your gross estate for estate tax purposes and retaining access (although limited) to policy cash values. The policy is typically owned by an ILIT and premium payments are made by the insured or the insured's spouse. Based on the terms of the agreement only a small portion of the premium paid is deemed a gift while the majority of the premium is to be returned to the premium payer at some point.

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