

Life Insurance Planning in 2021

What To Do Now in Light of Tax Proposals?

By: Martin M. Shenkman, CPA, PFS, AEP,
MBA, JD and Jason Yoo, CFP, Product
Manager, FP Alpha



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What Might Current Tax Proposals Do to Life Insurance Planning

- Host of proposals. Senator Sanders proposal according to some may be the foundation of Democrat tax proposals. This includes proposals to:
- Reduce annual gifts to trusts from \$15,000 per beneficiary to \$30,000 in total.
- Reduction in lifetime exemption to \$1 million for gifts and \$3.5 million in total (so if you gift \$1 million you can bequeath only \$2.5 million more without a tax).
- Inclusion of post-Act grantor trusts in the settlor's estate and a portion of pre-Act trusts that have gifts made to them in the estate

What Does this Mean for Life Insurance Planning?

- Create grantor trusts now so that they can be exempted from automatic estate tax inclusion.
- Life insurance not in trust might be put into trust now to avoid the much lower estate tax exemptions and higher estate taxes.
- Fund trusts now so that you can avoid post-Act estate inclusion based on post-Act gifts.

How Likely Is it For These Changes to Be Enacted

- No one knows.
- If you don't act now, you may lose huge opportunities so focus on action not predicting the unknown.
- Be certain that your plan makes sense for you regardless of what should happen.
- That is why you need a financial plan and forecasts for each course of actions.

Who Might this Affect?

- Lots of people not only the most wealthy. A young family buying life insurance to protect young children could find significant tax costs.
- Wealthy should definitely plan.

What Should Insurance and Financial Advisers Do Now?

- Communicate to clients immediately. There is an urgent need to plan, and most clients don't understand this.
- Educate clients as to options.
- Many clients should set up irrevocable life insurance trusts ("ILITs") now if they don't have them.
- Many clients should gift trusts funds now as they may not be able to do so after a new law is passed.
- Remember the old saying "if you snooze you lose." Waiting to see what happens – it may be too late to act.
- Project insurance needs under current and possible future laws.
- Prepare financial forecasts to show clients what funding a trust now versus not might look like.

Conclusion and Additional Information

Act Now



Conclusion

- Act now.
- Evaluate funding of insurance plans.
- Review updating of insurance trusts and other documents.
- Be flexible as there is no certainty what if anything may be enacted.

Additional information

- Jason Yoo, of FP Alpha jyoo@fpalpha.com
- Martin M. Shenkman
shenkman@shenkmanlaw.com