

Did you know that you can make a gift of a new or existing life insurance policy to your favorite charity?

A **charitable bequest** is appropriate if you would like a charity to benefit from the proceeds of an existing life insurance policy but do not wish to surrender control during your lifetime. By changing the designated beneficiary to a desired charity, you retain the benefits of owning a policy. Upon your death, the charity receives the proceeds from the policy, and a charitable deduction for the value of the proceeds is allowed.

If you wish to receive an immediate income tax deduction for a gift of an existing policy, consider a **charitable gift**. By changing the beneficiary and ownership designations to a favorite charity, you can obtain an immediate gift tax charitable deduction, based on the lesser of your cost basis or the value of the policy.

With a **charity-owned policy**, a life insurance policy (where permitted by state law) is purchased by and made payable to a charity of your choice. Policy premiums are technically paid by the charity. To offset this cost, you make annual cash gifts to the charity, and you may be eligible to deduct your annual donations from your income taxes.

A consultation with your tax and legal professionals can help clarify your goals, provide information on the limitations on charitable deductions, and avoid unnecessary complications.

### Life Insurance for Business Ends

Life insurance is also an important feature of many business arrangements. Here are some of the more common ways you can use life insurance to help benefit and solidify your business:

**Funding Buy-Sell Agreements.** Under a typical buy-sell agreement, business partners agree to purchase each other's interest if one of them dies. Life insurance can be a cost-effective method of funding this type of agreement, as long as you and your partners are insurable.

**Providing an Employee Benefit.** Life insurance is a basic component of many employee benefit packages. One example is a traditional employee group term plan, which generally covers most employees. You can also use life insurance to enhance the benefits of select (key) employees who are vital to the success of your business. Be sure to consult your tax and legal advisors for specific guidance.

**Insuring Key Employees.** The death of a key employee can create financial challenges for a business. Revenue may be affected; customers may need assurance that business operations will continue; and a replacement may need to be recruited and trained. Key person life insurance can provide funds to help meet these needs without jeopardizing your business operations or interfering with cash flow.

**Guaranteeing Business Loans.** Owners of new or growing businesses may have difficulty obtaining business loans. Lenders may need to be assured that loans will be repaid, even if the owner dies unexpectedly. Business credit life insurance may make it easier to obtain financing by guaranteeing repayment with the proceeds from life insurance.

Regardless of your stage in life, life insurance offers a variety of ways to address your financial concerns. Be sure to consult with your professional advisors to ensure that your life insurance strategies are in line with your goals for yourself, your family, and your business.



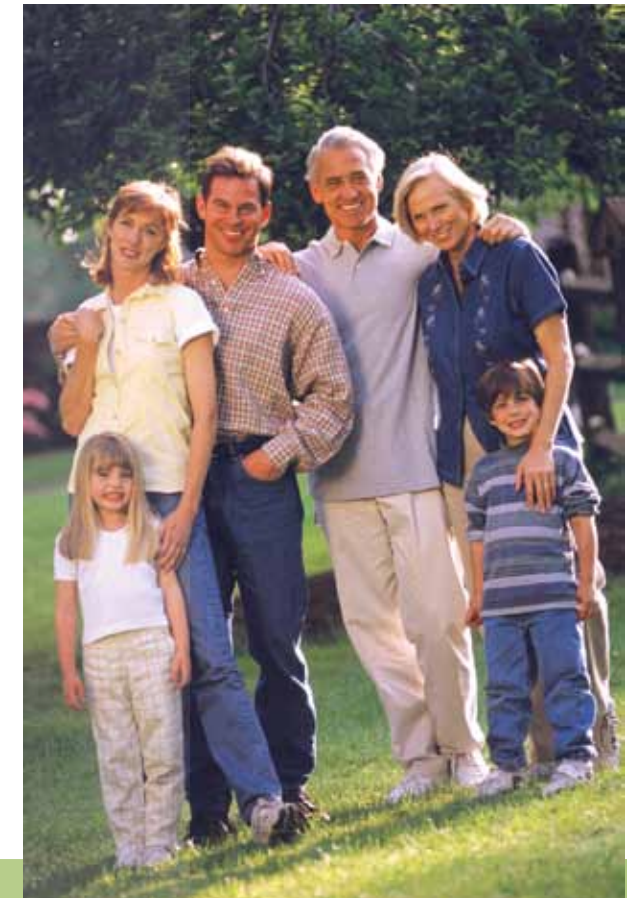
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# Life Insurance

The Benefits  
of Protection  
and Preparation



*life insurance*, in all its varied forms, is quite simply a method for handling financial risk in the event of death. Instead of trying to amass a sizable emergency fund — a task that may be difficult to achieve — life insurance can help create a fund for your family in the event of your death. Life insurance proceeds may be used to help pay off a mortgage, fund a child's education, or cover estate tax liabilities.

Thinking about our own mortality can be difficult, but preparing for such an event may be necessary to help ensure financial obligations are met. Certain life events often trigger the need to purchase life insurance. If you already own a policy, be sure to reevaluate your coverage on a *regular* basis, as well as when you reach one of life's milestones, to ensure it continues to meet your needs. Consider the following:

## Marriage

- Newlyweds now have shared financial obligations, which could be greatly impacted by the loss of a spouse. Life insurance can provide an instant estate to help meet these needs.
- If you already have a policy, you may want to determine whether your coverage amount is still appropriate. You may also want to consider additional insurance for your spouse. Updating your beneficiary list to include your new spouse and correcting your policy to reflect a name change, if applicable, are also important.

## Birth or Adoption of a Child

- Raising children today can be expensive, particularly if childcare is needed. Life insurance can help provide the necessary funds to cover these expenses.
- Current policies may require an increase in coverage, as well as an updated beneficiary list.

## Purchasing a Home

- Homeowners may consider purchasing a policy or increasing a policy's value to help ensure that mortgage requirements can be met in the event of your death.

## Starting a Savings Plan for College or Retirement

- A family's financial goals, such as funding a college education or saving for retirement, may be affected in the event of your death. Insurance proceeds may be used to help fund these goals.
- If the policy allows withdrawals or loans, they may be used to help supplement retirement income or pay tuition expenses. However, loans and withdrawals can reduce the policy's cash value and death benefit, can increase the chance that the policy will lapse, and may result in a tax liability if the policy is terminated before the death of the insured.

## New Job/Starting Your Own Business

- If you change jobs, pay attention to the benefits offered by your new employer. The use of life insurance as an employee benefit may vary from one employer to another, and this must be factored into your personal policy.
- If you leave your job to start your own business, be sure to address changes in coverage when you leave your employer's benefit plan. Also consider the ways in which life insurance can be used as a business tool.

As you approach each one of life's many milestones, be sure to evaluate and review your life insurance needs to help ensure you are prepared for whatever life brings your way. You may want to start by conducting a needs analysis.

## Conduct a Needs Analysis

Many people buy life insurance before conducting a financial needs analysis. They might choose a benefit amount that seems appropriate, without considering the potential expenses their family might face in the event of their death. To make a comprehensive assessment, take the time to conduct a thorough analysis.

Consider the following steps: First, write down the total value of all assets that you own. When totaling your assets, be sure to include savings, retirement funds, real estate, and life insurance you already own. Next, list and evaluate all expenses you or your family might face if one spouse were to die. These are your potential liabilities. Take a look at these potential needs and assign an estimated amount to each:

- 1 **Immediate Money Fund.** This may include medical and hospital expenses, outstanding bills, burial costs, and attorney/executor fees.
- 2 **Debt Liquidation.** Your debt, if any, may be in the form of credit card bills, school and auto loans, unpaid notes, outstanding bills, etc.
- 3 **Emergency Fund.** Unexpected bills not readily payable from current income could include major home and car repairs, or medical emergencies.
- 4 **Mortgage/Rent Payment Fund.** How much would you need to pay off your mortgage or provide for house payments or rent?
- 5 **Child/Home Care Fund.** Extra expenses may arise following the death of a parent. Estimate the cost of hiring help for child care, shopping, food preparation, laundry, and yard care.
- 6 **Education Fund.** Be sure to include the cost of funding higher education for your children.

The total of all of the above costs, less your liquid assets and life insurance, would provide your new financial needs. Now that you have performed a

needs analysis, you may be interested in discovering other uses for life insurance.

## An Estate Planning Tool

In addition to facilitating the transfer of assets to future generations according to your wishes, estate planning seeks to help you preserve wealth during your lifetime and minimize your future estate tax liability. Estate taxes can take a toll on the size of the estate you hope to leave to your loved ones. While assets may pass to a spouse tax free, transfers to other beneficiaries, including children, in excess of the **applicable exclusion amount** (\$5 million in 2011) may be subject to Federal estate tax.

How will your heirs pay potential estate taxes? Life insurance can help fund the payment of estate taxes, using an **irrevocable life insurance trust (ILIT)**. When properly drafted and executed, the proceeds of an ILIT are payable to ILIT beneficiaries (for example, your children). An ILIT can purchase a life insurance policy on your life, with policy premiums funded by annual gifts you make to the ILIT. The proceeds are excluded from your estate and do not incur any estate tax liability.

Further, your **annual gift tax exclusion** (\$13,000 annually per donee and \$26,000 for gifts made by married couples in 2011, indexed annually for inflation) can be used to help minimize your gift tax exposure. Used in accordance with rules pertaining to **Crummey withdrawal powers** (*Crummey v. Comm*, 397 F.2d 82 (9th Cir. 1968)), this technique can help fund future estate tax liabilities and create the potential for leveraged gifts to family or charity. Consult your tax and legal professionals for specific guidance.

## Charitable Life Insurance Gifts

If you are charitably inclined, the gifting of life insurance can offer unique planning opportunities.