Tax-Efficient Legacy Planning

BE PREPARED IN CASE TAX LAWS CHANGE

LIFE INSURANCE

THE BACKGROUND

David and Mary are 65 years old with a $20 million estate. As of Jan. 2024, the federal estate tax threshold for a married couple is $27.22 million, or $13.61 million per individual. Given David and Mary's expectation of continuing to grow their net worth, as well as future tax law changes, they are concerned their legacy will be eroded by taxes.

THE PROBLEM

Under existing law, the current lifetime gift and estate tax lifetime exemption is set to sunset, effectively cutting the exemption amount in half. This will, at least for the immediate future, decrease the opportunity to gift appreciating assets out of an estate. The good news is there is enough time to create a plan while the exemption remains high.

CLIENT PROFILE

- High-net-worth couples or individuals — especially those with a net worth close to the current lifetime exemption
- Willing to shift future asset growth outside of the estate
- Healthy non-smokers willing to go through underwriting

PROTECTING FROM FUTURE TAX LOSS

Since David and Mary's estate value will exceed the future exemption, they want to leverage the tax-free gifting that will no longer be available in 2026. Their advisor assumes the estate will grow at an after-tax rate of 4.0% annually. If David passes away at age 87 and Mary at age 91, it would create a hypothetical estate of over $55 million. Without action, that could leave them with an estate tax bill of $12.7 million[1] — **roughly 23% of their legacy.**

	No gifting, death in 2025	**No gifting, death in 2026**	**No gifting, death in 2050**
Gross estate value	**$21,632,000**	**$22,497,280**	**$55,449,396**
Estate tax due after exemption	$27.22 million exemption[1]: **$0**	$14.21 million exemption[1]: **$3,259,112**	$23.45 million exemption[1]: **$12,746,358**
Net amount to heirs	**$21,632,000**	**$19,238,168**	**$42,703,037**
Percent loss to taxes	**0%**	**14.5%**	**23%**

In order to reduce the amount of gain lost to future taxes, David and Mary can take advantage of the current exemption rate by gifting assets outside their estate. See the next page for their options.

[1] The federal gift and estate tax exemption for married couples is $27,220,000 as of Jan. 2024. Future exemption amounts assume no changes to existing law and exemption increases based on a 2.20% CPI. Future estate tax amounts assume the current maximum estate tax rate of 40% applies to the excess of the estate over the available exemption amount.

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THE OPTIONS

David and Mary have four options to choose from to pay their estate taxes: forced sale of assets, a loan, life insurance or cash. Based on a $55,449,396 estate value at Mary's age of 91, we know the cost of cash would be the exact amount of the federal tax bill, projected at $12,746,358. Let's take a closer look at each of the other options. Keep in mind estates must be settled within nine months of death.

OPTION #2

Sale of Assets

Cost: $15,932,948

Assuming a sale at 80% of market value.

OPTION #3

Loan

Cost: $18,147,947

Assuming a 7% interest rate loan for 10 years.

OPTION #4

Life Insurance

Cost: $3,872,856

Assuming a $10,000,000 death benefit irrevocable life insurance trust-owned policy

THE SOLUTION

The couple selects the third plan, using life insurance to increase the value of their net estate as much as possible. They choose a survivorship life insurance policy with a $10 million death benefit. They set up the policy within an irrevocable life insurance trust, which is a tax-smart way to keep the policy's death benefit out of their taxable estate.

To fund the life insurance's annual premium of $148,956, David uses today's lifetime exemption to make a cash gift to the trust of $13.61 million. Projected to Mary's death in year 26 of the policy, **life insurance nets $13,539,205 more than without a gifting strategy!**

	WITHOUT LIFE INSURANCE	WITH LIFE INSURANCE [1]
Taxable Estate Value	$55,449,396	$17,716,082[2]
Total Trust Assets	+ $0	+ $30,868,794[3]
Death Benefit Proceeds	+ $0	+ $10,000,000
Estate Taxes Due	- $12,746,358	- $2,342,633
Total Premium Outlay	- $0	- $3,872,856
Net Assets to Heirs	$42,703,037	**$56,242,243**

[1] Based on Prudential SUL Protector lifetime no-lapse guarantee, using a male and female, age 65, with preferred non-smoker. Values are not guaranteed unless specifically noted. See full carrier illustration for details.

[2] Taxable estate reduced to $6,645,600 in 2024 after a $13.61 million lifetime exemption gift was made to the trust. Final value based on 4% growth until death in year 26.

[3] Based on initial gift of $13,610,000 and annual growth of 4%, minus the annual life insurance premium of $148,956.

NEXT STEPS

As we progress through 2024, planning advisors – including insurance professionals, accountants, and attorneys – are going to be increasingly occupied. Top estate planning attorneys, in particular, are expected to have very full calendars in 2025. Have a conversation with your affluent clients now. Identify their objectives and probe for their concerns. If estate tax protection is important to them, introduce this strategy and why it may be a good fit for their estate plan.

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