

Under the right circumstances, life insurance can be a valuable – and even cost-saving – addition to a comprehensive estate plan. But, like all estate planning tools, life insurance is not the best option for everyone. If you are thinking about buying life insurance, or wondering if you should, here are three important considerations to keep in mind.

3 Important Considerations for Incorporating Life Insurance into Your Estate Plan

1. There are Many Different Reasons to Purchase Life Insurance

There are a variety of reasons why you might want to consider incorporating a life insurance policy into your estate plan. Some of the most-common reasons why people choose to purchase life insurance as part of the estate planning process include:

To cover funeral and burial expenses

To provide a replacement source of income for the policy's beneficiaries

To supplement the value of their estate

To pay estate taxes and other taxes owed by their estate

To make charitable gifts at the time of death

Depending upon your family and financial circumstances, you may have other ways to address these concerns; or, they may not be concerns at all. The key is to make an informed decision that maximizes the overall value of your estate while maintaining the financial and estate planning flexibility you desire.

2. There are Many Different Types of Life Insurance Policies

Most people are generally familiar with the differences between term life insurance and permanent life insurance, but these are not the only options you have available. There are numerous different types of life insurance policies available, including:

Permanent life insurance

Survivorship life insurance (or “second to die” insurance)

Term life insurance

Universal life insurance

Variable life insurance

Variable universal life insurance

Whole life insurance

Once again, your personal circumstances will dictate the specific options that are on the table, and you will need to make an informed decision about the policy (if any) that best suits your individual estate planning needs.

3. You May or May Not Benefit from Establishing an Irrevocable Life Insurance Trust (ILIT)

In some cases, high-net-worth individuals will benefit from establishing an irrevocable life insurance trust (ILIT). An ILIT allows for payment to beneficiaries outside of your taxable estate, which can help reduce or eliminate your overall estate tax liability. Even if your estate does not currently exceed the threshold for estate tax liability (\$11.18 million under current IRS guidance, but scheduled to drop significantly in 2025 pursuant to the sunset provisions of the Tax Cuts and Jobs Act), it may be worth

considering an ILIT now in order to mitigate any potential estate tax exposure in the future.

Discuss Your Options with an Estate Planning Lawyer in McKinney, TX

The estate planning lawyers at The Nordhaus Firm provide personalized and strategic estate planning services for individuals in McKinney, TX. If you have questions about life insurance, irrevocable life insurance trusts or any other estate planning tools, we invite you to call (214) 726-1450 or contact us online to schedule a free initial consultation.