

NEWSLETTER SUMMER 2025

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Role of Life Insurance in Estate Planning

Life insurance is a popular financial product that generates a payout for the family of someone who has passed away, which is defined as the death benefit. While many are aware of the existence of life insurance, not as many are aware of the various ways that life insurance can be implemented in an estate plan.

Broadly speaking, there are three major areas life insurance is used to create or supplement an overall estate plan: creating liquidity, business succession planning and estate tax planning.

The most common use of life insurance is to create liquidity upon the passing of an individual. The most common forms of expenses that face the executors and heirs of an individual who has passed, also called a decedent, include funeral expenses, debts of the decedent and ongoing maintenance costs of assets that were owned by the decedent. A life insurance policy can be put in place to allow for the estate to cover these expenses without the executor or the beneficiaries having to use their own funds to satisfy the expenses of the decedent's estate.

Some other situations where liquidity will be beneficial to an estate are when the decedent wishes to fund trusts for their heirs upon their passing, or if certain beneficiaries are receiving illiquid assets that cannot be easily turned into cash to split amongst all of the recipients. Having a life insurance policy that is meant to fund trusts or to equalize payments amongst beneficiaries can make life much easier for an executor.

The second major area life insurance can aid in an estate plan is business succession planning. Typically, a life insurance policy is used in conjunction with an agreement called a buy-sell agreement that requires all partners in a business to own insurance policies upon each of the respective partners of that business. If an acting partner of a business passes away, the

life insurance proceeds would then be used to pay their heirs in order to avoid the need for the surviving partners to sell the deceased's stake in the business. This allows the business to continue operations as smoothly as possible.

The third major area to implement life insurance in an estate plan is estate tax planning. If the individual taking out the life insurance policy expects to pass with enough assets to trigger the federal or a state estate tax liability, life insurance proceeds may be used to fund the estate tax bill in lieu of the assets of the estate. This is especially useful if the decedent was the owner of a small business that cannot be easily sold to fund the estate tax bill.

While the situations in which life insurance can be implemented in an estate plan are relatively straight forward, there are still many factors to consider once it is decided that life insurance should play a part in an individual's estate plan. These factors include the type of life insurance that should be used for the strategy (i.e. term or whole life), how the insurance should be held (i.e. by the individual themselves or in a trust), and who the beneficiary(s) of the life insurance policy should be. Each of the potential strategies summarized above may need different types of life insurance, different methods of holding the insurance and different beneficiaries.

If any of these strategies apply to you, contact your Sgroi Lawley advisor to set up an appointment. We'll review your specific goals and potential estate planning concerns to determine how life insurance can provide additional help. We at Sgroi Lawley are not only dedicated to working towards your goals, but also ensuring that your estate plan, and in turn, your heirs, are taken care of exactly the way you want them to be.