

Estate Liquidity

The Problem...

- ❖ When a person dies, taxes and other costs must be paid—in cash—within a short period following the date of death.
- ❖ These taxes and costs deplete the amount of an estate left for heirs.
- ❖ Typical costs include federal and state estate taxes; funeral expenses; expenses of the decedent's last illness; the decedent's outstanding debts; and probate costs such as executor's fees, attorney's fees, court costs, appraiser's fees, costs of insuring estate property, and more.
- ❖ The first step is to enumerate and estimate these costs. The next important step is to find the means to pay these costs.

The Response...

- ❖ Comprehensive estate preservation strategies should not only provide for the orderly disposition of an estate owner's assets at his or her death, but also make certain the estate's executor will have ready cash to pay estate obligations promptly.
- ❖ People often use life insurance to provide the estate with sufficient cash to satisfy the claims of creditors and to pay taxes and other costs resulting from the estate owner's death.



- ❖ For individuals whose estates may be subject to the federal estate tax, the life insurance benefit can be arranged so that the proceeds won't be included in the gross estate.

The Life Insurance Advantage...

- ❖ Life insurance proceeds are available immediately when needed.
- ❖ The event creating the need—the estate owner's death—creates the funds to satisfy the need.
- ❖ The proceeds are usually received free of federal income tax.
- ❖ The ownership of the policy can be arranged to avoid probate and inclusion in the federal estate tax calculation.
- ❖ Payment of the proceeds avoids the need to liquidate other estate assets—perhaps at sacrifice prices—to create needed cash.
- ❖ The need to borrow at interest is also avoided, as is the need to pay the federal estate tax in installments (if this option is available).
- ❖ A life insurance policy's death proceeds almost always surpass the premiums paid for the policy, resulting in estate costs being funded at a discount.

The Bottom Line...

A sound, regularly updated estate review serves multiple roles in arranging for the orderly disposition of estate assets at an owner's death, while protecting the estate from needless taxation and shrinkage. Life insurance can be a key component that creates sufficient liquidity to pay estate obligations when the need arises—without depleting estate assets intended for the heirs.

Copyright © 2004-2017, Pentera Group, Inc.

921 E. 86th Street, Suite 100, Indianapolis, Indiana 46240. All rights reserved.

This writing is provided for informational purposes only. Neither New York Life Insurance Company, its agents, or its employees are in the business of providing tax, legal or accounting advice, and none is intended nor should be inferred from the foregoing comments and observations. Clients should be advised to seek the counsel of their own tax, accounting and legal advisors who must form their own independent opinions on these matters based upon their independent knowledge and research. This material includes a discussion of one or more tax-related topics. This tax-related discussion was prepared to assist in the promotion or marketing of the transactions or matters addressed in this material. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. SMRU 506719 (exp. 06.30.2021)