

Funding your legacy through life insurance

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You don't have to be wealthy to make a difference in the lives of loved ones or a charity. Whether you want to leave a specific asset or dollar amount, it's important to create a strategy that gives you control of your financial legacy. In either situation, using life insurance to fund your legacy can offer you additional flexibility and help provide more certainty to meet your goals.

Start by outlining your goals

Define your legacy goals, personal and financial. If your wishes fall into one or both of the goals below, here are some things to consider:

What do you want to leave a loved one or charity?

Specific assets

If you'd like to leave financial assets, such as a savings account or stocks, your strategy may be relatively simple. In most cases, you'll want to maintain ownership of the assets during your lifetime and retain any income they generate — this may give you the most flexibility.

If the asset you'd like to leave needs ongoing maintenance (many times, real estate, farmland or a business have these costs), you may want to consider providing your beneficiaries with additional money to pay for taxes, insurance, operating costs or other day-to-day expenses when they inherit the asset.

Specific dollar amount

If you already have these assets saved: Consider setting that amount aside today, essentially earmarking it for this goal. That way, you'll know your legacy goal is fully funded. As a result, regardless of when your passing occurs, your beneficiaries will receive the specific dollar amount you desire. This option may make sense if you have sufficient assets today to provide for all your retirement needs and can set aside any surplus assets for your legacy goal.

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Specific assets

To do this, you could set aside additional assets you have available today — such as cash or investments. However, if you need to maintain flexibility for your retirement spending, you may want to consider purchasing life insurance for the additional amount you'd like to leave. This approach would grant you the financial flexibility you need in retirement while still leaving money for any ongoing maintenance costs you'd like to cover.

Additionally, in many cases, the asset you'd like to leave can't be split evenly (or easily) among your beneficiaries (think about a home or business). In these cases, life insurance may also be an option to equalize inheritances among your loved ones.

Specific dollar amount

For example, say you'd like to leave your favorite charity \$50,000. If you have sufficient assets to meet your current needs and already have an emergency fund for unexpected events, you may want to set aside the \$50,000 now. Regardless of the date of your passing, your goal would be 100% funded. If, however, an unexpected need occurred, you could still access the \$50,000 (at the expense of your legacy goals).

If you don't already have these assets saved: You could consider creating a savings plan to fund your legacy goal over time. However, exactly how long you'll have to save is not in your control — so you'll need to estimate your saving time frame and its rate of return (if you plan to invest these savings). If you choose this strategy, you should be comfortable with the chance of potentially leaving less than you had hoped to your loved ones or charity. Alternatively, you could consider funding your legacy goals with life insurance.

Funding your legacy goals using life insurance

Using life insurance to help fund your legacy could allow you to:

- Leave beneficiaries additional money to pay for the ongoing maintenance of an illiquid asset (such as property or a business)
- Leave a specific asset to one beneficiary while leaving an equivalent value in life insurance proceeds to others
- Cover a potential estate tax liability
- Provide liquidity to transition a business at your passing

What type of insurance should I consider?

If you decide to use life insurance for legacy planning, consider a permanent policy. A permanent policy should stay in force for your lifetime as long as you pay the required premiums.

How much is right for me?

If you have a specific dollar amount you want to leave to your loved ones or charity, the policy death benefit you need is simple to calculate. But if you are trying to provide for specific needs of your beneficiaries or address other inheritance-planning concerns, work with your financial advisor to estimate the amount of insurance you'll need, considering the future costs for which you want to provide.

Are you insurable?

Before you purchase a policy, you'll need to meet the insurance company's health guidelines. For example, many insurance companies will not offer an insurance policy to clients who have had a major medical issue in the past five years or who are over a certain age. However, each insurance company's requirements are different, so your financial advisor can work with you to determine which insurer may be the best option for you.

How much can you afford?

If the cost of the life insurance is higher than the amount you are able or willing to pay, you may need to reduce the amount you plan to leave as your legacy. If you are married, a second-to-die policy (which pays the death benefit at the last spouse's death) may be more affordable because the insurance company will consider both of your health factors and life expectancies.

Another strategy may be leaving a combination of a specific amount of life insurance and funding the balance from other assets. You can do this by purchasing the maximum amount of life insurance you can afford and designating other specific asset(s) to reach the total amount you desire to leave as your legacy.

How much flexibility do you need?

There are many different types of permanent policies, each with their own benefits and features. For example, some policies provide you with some optional benefits during your life for items such as long-term care. Other policies allow for the cash value within the policy to accumulate more quickly, which could allow for more flexibility. It is important to discuss with your financial advisor the different policy options and trade-offs to make an informed decision for you and your goals.



A team effort

We help you identify and work toward your financial goals and provide advice about investments, portfolio allocation and insurance. But when it comes to estate planning and tax advice, you'll need the services of your attorney and tax professional.

While there are many tools your attorney may choose to use, he or she will most likely review your investment and savings accounts to add a direct beneficiary designation(s), draft a will to document all your legacy desires and/or create a trust to provide for your legacy goals. Working together with our various areas of expertise, we'll be able to help you develop a comprehensive approach based on your situation and goals.

It's about balance

You'll need to balance your retirement goals with your legacy goals when deciding how to fund your legacy. Determining which one is your priority can impact the decisions you make.

If your primary goal is providing for your retirement, but you also have legacy goals:

- With your financial advisor and tax professional, decide which assets you'll use to provide for your retirement versus which ones you plan to leave to your loved ones or a charity. Since different types of assets have different tax consequences, it's important to work together to determine your strategy.
- Consider using life insurance to help fund your legacy. Many life insurance policies can provide additional features, including long-term care benefits, should you need them during your lifetime. This feature allows you to provide for your long-term health care needs during retirement and leave the policy's remaining value for your legacy – giving you more flexibility. Most permanent insurance policies may also accelerate the death benefit payout, so you can use the funds for your medical care should you become terminally ill. There are many options (with trade-offs and additional costs) that you should discuss with your financial advisor and professional team to determine what works best for you.

Caring for loved ones with special needs

If you are the primary caregiver for a loved one who has special needs, it is important that you have a plan in place for their care. Life insurance could provide the necessary funds for his or her care at your passing.

Because assets owned in the loved one's name could affect current and future government assistance, it is important to work with a qualified attorney prior to purchasing a policy to ensure all legal considerations have been met.

The importance of the review

Once you have a strategy in place for funding your legacy goal, it is important to review this goal regularly to help ensure you remain on track. And you should review not only your funding strategy but your beneficiary designations and legal documents to ensure all the plans you have in place are consistent with your wishes.

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