Lincoln Financial Group®

Take charge of your legacy

Build a tax-efficient estate plan

LIFE SOLUTIONS

Client Guide

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Create the tax-efficient legacy you want

Estate planning is an important part of protecting what matters most to you. It puts you in control of your assets and allows you to plan ahead toward your goals. Regardless of your net worth, it's important to have the right estate plan in place.

Having one can help you:

- Grow and protect your legacy
- Potentially reduce expenses, taxes and probate costs
- Control the distribution of your assets
- Ensure that your unique goals are achieved

Create a solid estate plan

Take the complexity out of estate planning by partnering with tax and legal professionals. They can help guide you through the process to create a plan that works best for you.

How to meet your objectives

Wills

A will gives you the power to designate who inherits your property and how it's distributed upon your death. It helps you:

- Transfer assets outright or in trust
- Appoint a personal representative, or executor, to administer and distribute your estate
- Name a guardian to care for any minor children or other dependents who may be physically or mentally incapacitated, and direct the management of their assets

To die without a will, or intestate, means your property transfers according to your state's laws. These laws are based on family and blood relationships and may not fulfill your desired wishes. **Without a will, you'll have no say in where your assets go, which could be costly to your heirs.**

Advance healthcare directive

An advance healthcare directive, or healthcare power of attorney, gives another person — such as your spouse or child — the power to make healthcare decisions on your behalf if you are mentally or physically incapacitated or unable to communicate your wishes.

Power of attorney

A power of attorney grants you the power to designate and authorize another person — the *attorney-in-fact* — to act on your behalf. The attorney-in-fact has essentially the same legal authority as you and can be granted broad or limited powers over your financial affairs.

There are two distinct types of powers of attorney:

A durable power of attorney is effective immediately and continues unless revoked. It's not affected if you subsequently become mentally incapacitated.

A springing power of attorney[1] goes into effect under situations you specify. The most common circumstance is if you're declared mentally incapacitated.

Trusts

A trust establishes a legal entity that allows you as grantor to place specific parameters around the distribution of your assets. A trustee is appointed to manage and control property according to your written directions for the benefit of your beneficiaries.

[1] Also referred to as conditional power of attorney.

Two trust categories—revocable and irrevocable

Revocable trust

A **revocable trust** can be terminated or modified at any time during the life of the grantor. It becomes irrevocable at the grantor's death or can remain revocable until the death of a surviving spouse, who may also be a grantor. Though effective to avoid probate, the assets in a revocable trust are included in the grantor's estate for federal estate tax purposes. Revocable trusts typically do not provide any protection against the claims of creditors.

Irrevocable trust

An **irrevocable trust** cannot be terminated or significantly changed by the grantor. Irrevocable trusts are typically used to remove assets from the grantor's taxable and probate estates. The trust can also provide creditor protection for trust beneficiaries, including protection against claims by spouses of trust beneficiaries in a divorce or property settlement. Irrevocable trusts are typically funded by gifts from the grantor.

Using trusts to meet different objectives

Marital estate planning objectives

A **general power of appointment marital trust,** also referred to as marital trust or "A" trust, provides income for the surviving spouse, access to principal, and the power to remove assets or select beneficiaries upon their death.

A **qualified terminable interest property (QTIP)** trust provides support for the surviving spouse during his/her lifetime, but allows the grantor to designate how the trust assets are distributed when the surviving spouse dies.

Family estate planning objectives

A **family trust** (credit shelter trust, "B" trust, bypass trust or unified credit trust) is used to take advantage of the applicable exemption amount and allows assets to pass estate tax-free to beneficiaries. A family trust can be a source of income for a surviving spouse.

A **dynasty trust,** or generation-skipping trust, provides income for many generations while avoiding gift and estate taxes. The trust can be funded with gifts or bequests, and life insurance is often used to fund the trust over successive generations.

What life insurance can do

Life insurance can help you create a tax-efficient legacy worth much more than the cost of the premiums you pay. Its death benefit transfers to your beneficiaries, federal and state income tax-free, and possibly estate tax-free if set up properly in an irrevocable life insurance trust. Life insurance can help:

Pay immediate expenses

It can cover funeral costs to help ease a difficult time. Your beneficiaries will get a prompt death benefit payment to cover bills without cashing in or selling off other assets, often at a loss.

Relieve tax burdens

Its death benefit can help pay estate taxes, which can be an unexpected and unavoidable debt for your heirs. Estate taxes are due within nine months from the date of your death or the death of your surviving spouse.

Satisfy mortgages and other costs

Life insurance proceeds can help your loved ones pay down any outstanding debt, including car payments, mortgage, or healthcare costs.

Equalize estate distributions

Your life insurance death benefit can help ensure your estate has the liquidity to promote equitable distribution of assets in terms of worth and value.

Continue a business

Life insurance can help ensure your business continues if you die suddenly. Its proceeds can help your family buy out a business partner's interest, stocks and more.

Two types of life insurance

Term life insurance

Covers you for a limited period of time, or term.

You pay a premium for a fixed amount of time, or specific term (e.g., 10, 15, 20, or 30 years) and receive a guaranteed death benefit if you die during that period. This is good for short-term needs.

Permanent life insurance

Provides longer-duration protection.

Built to last up to a lifetime, these policies offer the protection you're looking for plus growth potential with access to cash value,[2] and tax advantages you might not get in more traditional investments.

[2] Access to cash values through loans and withdrawals will reduce the policy's cash value and death benefit due; may cause the policy to lapse and may have tax implications.

Placing your life insurance policy in an irrevocable life insurance trust (ILIT)

How it works

The ILIT purchases the policy you selected.

- An individual life insurance policy on your life, or
- A survivorship policy, which covers two lives and pays out a death benefit after the death of the longer surviving spouse.

The ILIT is the owner and beneficiary of the policy. At your death or your surviving spouse's death, the policy proceeds are paid to the ILIT.

How premiums are paid

Life insurance premiums are often entirely funded as gifts to the ILIT. The premiums you gift qualify for the gift tax annual exclusion, which means you pay no gift tax as long as the premium amount you gift is not more than the gift tax annual exclusion for that year.

The amount excluded from gift tax is $18,000 (individuals) and $36,000 (married couples) per beneficiary.

If the premiums exceed your gift tax annual exclusion limitations, you may want to consider using all or part of your lifetime applicable exemption amount, annually adjusted for inflation— $13.61 million (individuals) and $27.22 million (married couples) — to pay the premiums without any gift tax liability.

An irrevocable life insurance trust

An irrevocable life insurance trust can help you exclude life insurance proceeds from your taxable estate. It's a powerful estate tax-savings tool for those with large death benefit life insurance policies and high net worth.

Reducing estate taxes through gifts

You can remove assets from your taxable estate through annual exclusion gifts. The gift tax annual exclusion allows you to give up to $18,000 ($36,000 for married couples)[1] to each family member or friend each year without triggering gift tax. That's the same gift tax annual exclusion you have with an ILIT.

Gift and estate taxes can change, so gifting should be done only with legal and tax counsel.

Be aware.
Be proactive.
Be diversified.

Make tax-efficient life insurance a part of your estate plan.

[1] Current as of November 2023.

Talk with your tax and legal professionals to start protecting your legacy with the right estate plan today.

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