Estate planning without life insurance

Conventional wisdom often places life insurance at the forefront of estate planning. **Interviewed by Dale W. Hlaves**

"The most knowledgeable and sophisticated of individuals think that an attorney will design and execute their wills and trusts and set up a hefty life insurance policy to provide cash for their estate tax liabilities when they die," says Lee F. Hediger, cofounder, director and registered principal of Provenance Wealth Advisors LLC in Miami.

"They believe that they can then get on with life. What many don't realize is that other techniques can dramatically reduce a family's current and future estate tax liability. These techniques do not require the use of life insurance."

Smart Business talked to Hediger about the value of comprehensive estate planning.

Lee F. Hediger
Cofounder, director, registered principal
Provenance Wealth Advisors LLC

How can estate planning be accomplished without life insurance?

Comprehensive estate planning begins and ends with an understanding of our clients' life objectives, not just their tax objectives. For example, how do they feel about transferring their accumulated wealth to family members? How important is it to leave a legacy to children, grandchildren, church, synagogue, hospital or university? How confident are they that they will not outlive their assets?

The assimilation of these objectives provides the strategic cornerstones of the plan itself. With their incorporation, estate planning can move forward in a three-phase process: fundamental planning, tax reduction and tax payment.

Fundamental planning stops the immediate and unnecessary hemorrhage of family assets by eliminating the excessive costs of the probate, as well as efficiently using available tax credits, deductions and exclusions. Prudent planning can eliminate the immediate need for life insurance.

Sometimes, we find that even sophisticated people have not maximized the use of these fundamental tax credits. Such an omission can cause the needless attrition of a significant portion of their family's wealth. Their advisers have just not made them aware of the available options. These planning 'gaps' are not intentional but a by-product of the transactional mentality that is endemic in the financial services industry.

A common example in acquisition of life insurance is the fact that the life insurance agent, estate planning attorney or CPA rarely communicate or coordinate their activities. As a result, the life insurance purchase is often improperly structured, which can cause estate tax inclusion and possible gift tax ramifications. Instead of being part of the solution, life insurance, inadvertently, has become part of the problem. In many cases, it may have not been needed at all.

Tax reduction strategies can curtail the acceleration of estate tax liability over a lifetime. This phase of planning can help determine what proven strategies can reduce current estate tax liability as well as 'freeze' its growth. The proper design and execution of such strategies can decrease the amount of life insurance policy needed, or eliminate its need altogether.

Incorporating such strategies does not necessarily eliminate the need for life insurance. But discussing it as a liquidity option should come at the end of our planning analysis, after we have advised our clients of the feasibility of select tax reduction strategies. As such, the need for estate liquidity can be greatly reduced.

Why wouldn't someone want to implement strategies to reduce their estate taxes?

For some, it is a lack of awareness that such sophisticated techniques exist, or they do not understand how such techniques relate to them personally. Our role is to advise our clients of their best planning options based on their objectives, roll out the potential impact, and help them make informed decisions.

The second and third components that can prevent pro-active planning are fear and uncertainty. Such emotions obviously emanate from a lack of knowledge. The notion of 'giving away' a life's worth of accomplishment is a daunting one.

The most important responsibility of the adviser is to seek the techniques that offer the most benefit within established criteria and coordinate their smooth, successful and error-free execution.

A registered representative, Hediger offers advisory services and financial planning through Provenance Wealth Advisors. This article is distributed with the understanding that Lee Hediger and Provenance Wealth Advisors are not rendering legal, accounting or other professional advice or opinion on specific facts, and individuals are encouraged to seek guidance of their own personal legal or tax counsel.

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