John Hancock
INSURANCE

# Securing Your Legacy

**CLIENT SNAPSHOT**

**ESTATE PLANNING**

## Using life insurance to protect your legacy

Many of us want to be able to leave something to our children, grandchildren and/or other close family members, but are not always sure of what will be left for loved ones to inherit. No matter how much we have saved or planned, there are always obstacles that may side track our plans. Even more troubling, sometimes the particular assets left in the estate can leave beneficiaries at odds with each other or force the sale of assets that you had hoped would stay in the family.

### Leaving a lasting legacy

It is not always easy to know type of legacy is right for your family. For many people, just knowing that their children or grandchildren will inherit something is enough for them. For others, they may want to know that there is at least a minimum amount (e.g., $100,000, $500,000, $1,000,000, etc.) that can be shared among the beneficiaries. And then, there are some people who want to leave a legacy that will support a specific desire or goal – this is known as "legacy with a purpose."

A "legacy with a purpose" is one that is designed to be used for a specific purpose or to motivate specific behaviors amongst beneficiaries. For some, this may mean passing on an inheritance either outright or in trust to their loved ones with little to no restrictions. For others, based on their own unique experiences and values, leaving a legacy that meets a specific desire or goal may be of importance. Consider a few specific situations where this idea of a "legacy with a purpose" comes into play:

**MAINTAINING A BELOVED PRIMARY RESIDENCE OR FAMILY VACATION HOME**

Family homes are assets that are often earmarked to be passed down to the next generation, particularly if the children grew up going to the home and have special memories and family traditions associated with it. Unfortunately, what is a beloved piece of family history can quickly become a point of conflict when the next generation must sort out how to pay for the costs associated with maintaining the property. For example, if one sibling uses the property more than others, should he/she pay more? If so, and that person is not as financially well-off as his/her siblings, is that equitable? Who will pay for recurring costs, such as maintenance and upkeep, property taxes, or a mortgage payment, and bigger expenses like home improvements or additions as the extended family grows? Legacy planning for this type of asset can help maintain family harmony for generations to come.

### EDUCATIONAL ENDOWMENT FOR CHILDREN AND GRANDCHILDREN

For some families, providing a source of funding to pay for educational endeavors is a way to provide a meaningful, long-lasting legacy. "Educational endowment" can be as broad-reaching as the individual would like – potentially covering costs for K-12 tuition, sports, music or arts programming and activities, college and graduate school tuition, room and board, travel abroad, books, and more.

### DOWNPAYMENT FOR A HOME

Helping to provide funds to enable a loved one to make a big purchase such as a home is a common goal. For example, allowing for a trustee to distribute funds for a child to purchase his/her first home can be an integral first step in helping the child to increase independence, build credit, and gain financial stability.

### BUSINESS STARTUP FUNDS

Particularly for those who are business owners themselves, ensuring their children have access to a pool of resources to start a business endeavor is often a priority. These types of individuals are often interested in supporting the next generation to create their own wealth and business success.

To help you start thinking about your own legacy, consider the following:

1. As you think about your retirement, do you worry about having enough money to both fully enjoy these non-working years and be able to leave something to your children and/or grandchildren?
2. Do you worry that your children and grandchildren may not be able to lead as comfortable of a lifestyle as you were able to provide?
3. Do you own real estate, like a primary residence or vacation home, that you want to leave to your family with the hope that they will continue to use and enjoy the property?
4. Are you concerned about the cost of education and whether your children or grandchildren will be able to afford college or graduate school?
5. If there was a way to set up a fund for your children or other family members to access in order to start their own business, secure a down payment for home, take time off to volunteer or travel, etc., would you be interested?
6. Is it your hope to leave a financial benefit to your children or grandchildren (or other family members) when you pass? If so, do you have a specific dollar amount in mind?
7. Do you worry that some of your prized possessions (like a house, antiques, art) may get sold after you pass because your beneficiaries lack the money to maintain these assets or would prefer to receive cash instead?

**If you answered "yes" to any of the above questions, a permanent life insurance policy may be an effective way to meet your estate planning goals and secure the type of legacy you want to leave.**

## How life insurance can help

Once you have determined what kind of legacy you would like to leave, how can you make that goal a reality? When it comes to retirement planning and forecasting what your estate may look like at the end of your life, there are many uncertainties. Some of the biggest risks to your retirement portfolios include:

- **Outspending your retirement assets** because you live beyond life expectancy
- **Sequence of return risk**, meaning if you retire in a down market it can be difficult to recoup those loses over the course of your non-working years
- **Long-term care** and other health-care related expenses
- **Taxes and inflation**

Even if you are confident that you will have sufficient assets to pass on, will there be enough liquidity in your estate to maintain and support those assets that you want your beneficiaries to hold on to and enjoy?

This is where life insurance can help. The death benefit payable upon your passing (or the passing of you and your spouse if you choose a survivorship policy) is received by your beneficiaries income-tax free and is an affordable way to help achieve your legacy planning goals.[1] By purchasing life insurance, you can have peace of mind knowing that you will have a legacy to pass on to the next generation without jeopardizing your ability to spend more freely during retirement.

## Creating a trust – additional security for your legacy

If you have concerns about your loved ones receiving large sums of money outright or want to leave an inheritance that promotes responsible or directed spending, an irrevocable life insurance trust (ILIT) may be the answer. The ILIT can be structured with special language or provisions to help manage the ongoing administration and/or distribution of certain types of assets depending on how you would like to structure your legacy.[2] For example, the trust may have language that limits distributions until specific ages or for a particular purpose like tuition, maintaining or purchasing a home, or starting a business endeavor.

Although an irrevocable trust is not required, this type of trust structure is often advisable because of the added protections and flexibility it offers:

### *ENHANCED INHERITANCE PROTECTION*

- **Greater control** over timing of distributions (e.g. at ages 35/40/45, discretionary income/principal only)
- **Increased flexibility** over distributions (e.g. distributions may be limited to income or for a specific purpose)
- **Ability to preserve funds** for multiple generations
- **Assets may be professionally managed**

### *FLEXIBILITY AND ACCESS*

- **Spousal lifetime access provisions** can provide your spouse with access to funds inside of the trust
- **A multigenerational trust** allows trust assets to pass to grandchildren and future generations without paying GST taxes

### *EASY FUNDING*

- **Use of annual exclusion gifts** ($15k per beneficiary in 2018)
- **Increased lifetime exemptions** ($11.18M in 2018)[3] makes it easy to fund larger premium gifts without incurring tax

### *INCREASED CREDITOR PROTECTION*

- **Protection of trust assets** from future creditors who may try to go after you or your estate
- **Protection from beneficiaries' creditors**, such as ex-spouses, other third-party creditors, or in a bankruptcy situation
- **Spendthrift language can protect** a beneficiary from reckless spending and preserve trust assets

## Conclusion

When it comes to leaving a lasting legacy to your loved ones, there is no right answer in how to best structure your plan – this will come down to your unique goals, values, and family's situation. Securing that legacy and ensuring you will have sufficient resources to leave an inheritance is another planning challenge. Gifting to an irrevocable trust and leveraging the gifted funds to purchase permanent life insurance can be one of the most flexible, affordable, and tax-efficient way to secure meaningful legacy for your loved ones.

**Contact your financial advisor to see how life insurance can help create and secure your legacy.**

1. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.

2. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds.

3. The Tax Cuts and Jobs Act of 2017 - This new legislation has increased the estate, gift, generation skipping transfer tax exemption from $5M indexed for inflation to $10M indexed for inflation. Starting in 2018 this exemption is $11,180,000. In 2026, this exemption is set to expire and revert to $5M indexed for inflation.

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