



# LIFE INSURANCE FOR BLENDED FAMILIES

## Four Reasons Why It Makes Sense

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According to the US Census Bureau, blended families now outnumber traditional families in the United States. A blended family needs more than just the traditional estate plan. It needs an estate plan that not only deals with the inevitability of death and taxes, but also anticipates and addresses potential conflict between current and ex-spouses, children and stepchildren. Life insurance can help. Here are four ways that life insurance can benefit you and your blended family.

### Reason 1

#### Estate Equalization

Under a traditional estate plan, children from a former marriage run the risk of being intentionally or unintentionally disinherited. When one spouse passes away, his or her biological children must wait until their stepparent passes away to inherit from the couple's cumulative estate. This arrangement may unintentionally disinherit children from a prior marriage if they are close in age to their stepparent. In addition, if the stepparent's relationship with stepchildren sours, the lack of proper planning may result in the stepparent purposefully disinheriting those stepchildren. Conflict may also arise if a stepparent has control over the stepchildren's inheritance. By combining an otherwise traditional estate plan with a life insurance policy to benefit only children of a former marriage, you can demonstrate your intent to be fair and provide equally for all loved ones.

### Reason 2

#### Instant Liquidity

The majority of your net worth may be tied up in illiquid assets such as your home, commercial real estate and/or a family business. Upon your unexpected passing, it may be necessary to sell these assets for a price well below market value in an effort to generate quick cash. The death benefit from a life insurance policy can infuse your estate with the cash necessary for: (1) income replacement; (2) paying off debt; (3) paying taxes; (4) inheritance equalization; and/or (5) funding transfer of family business.

### Reason 3

#### Self-Completion

With a guaranteed life insurance policy, you can rest assured that your loved ones will receive a minimum guaranteed death benefit upon your passing—whether that day comes in 3 years or in 30 years.<sup>1</sup> You cannot achieve this comforting sense of certainty with a savings or investment plan, because these plans require a long time horizon to support regular contributions and earnings growth. If this time horizon is unexpectedly cut short, the entire plan falls apart. However, a life insurance policy can provide an immediate lump sum to replace the earnings that would have accumulated had you survived and continued making contributions.

### Reason 4

#### Tax-Efficiency

The death benefit of a trust-owned life insurance policy will ultimately pass income and estate tax-free to your named beneficiaries.<sup>2</sup> The money that you gift to a legacy trust to pay premiums may be sheltered from gift tax and will reduce your estate for estate tax purposes. Furthermore, life insurance policy cash values grow on a tax-deferred basis and can be accessed in a tax-favored manner.<sup>3</sup>

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<sup>1</sup> Assuming all policy provisions remain satisfied.

<sup>2</sup> Life insurance death benefits are generally excludable from the beneficiary's gross income for federal income tax purposes.

<sup>3</sup> Income taxes are only paid on the growth if the policy is surrendered.

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