Ben Franklin said that in this world nothing is certain but death and taxes. Well, one product sits at the intersection of both—life insurance. It may not help you cheat death, but it may help manage taxes.

There are certain estate planning steps we should all take, including the creation of a will and a health care directive. But if you have enough wealth that you expect your estate to be taxed—at either the state or the federal level—you may want to consider more advanced strategies. Life insurance can help families provide funding to pay estate taxes and provide other benefits for protecting wealth.

**Providing flexibility to heirs**

An irrevocable life insurance trust may provide cash for heirs to settle the estate. One of the main reasons people set up an ILIT is to help provide their heirs with flexibility in settling their estate. One difficulty heirs often face is a lack of cash to pay estate taxes. (The top federal estate tax rate for 2018 is 40%. Also, a number of states impose separate state inheritance and/or estate taxes.) As a result, heirs may be forced to sell real estate, stocks, or a family business to raise cash.

Aside from being an administrative headache to accomplish in the 9 months before estate taxes are due, selling assets may not conform with your wishes or those of your family. For example, heirs may want to keep the home, jewelry, or other assets you have passed on but they may be forced to sell them to raise cash. Or the timing could be inopportune—a slumping stock market or depressed real estate values could force the estate to liquidate assets at low values. Another hazard of a forced sale is the potential to trigger income with respect to a decedent[2]—in essence, forcing your heirs to pay additional taxes in order to settle the estate tax bill.

A key advantage of an ILIT as compared to personally owning the insurance policy is that if the trust is set up and administered correctly, the assets owned by the ILIT will not be considered part of your estate for federal inheritance/estate tax purposes—meaning your heirs won't have to pay estate or inheritance taxes on the life insurance death benefits that are paid.

**Estate tax strategies to consider**

In 2018, the federal estate tax exclusion increased to $11.18 million per person or $22.36 million for a married couple that takes advantage of portability. There may be a lower state estate exemption amount in your state. As a result, you may have a state estate tax liability but not a federal estate tax liability. If your estate may owe state estate taxes, federal estate taxes, or both, it may make sense to consult your tax advisor or estate planning attorney about an ILIT.

**Choosing insurance**

Term life is great for income replacement during your working years, but it's generally not suitable for a permanent need such as estate planning. Many companies won't issue a term policy past a certain age, and most term policies do not extend beyond age 80. A universal or whole life policy, on the other hand, can provide coverage for a fixed annual cost for life.

Universal life policies are generally more flexible in design than whole life policies. For example, while whole life policies do provide a guaranteed death benefit, they also generally accumulate significant cash value that can be accessed during the insured’s lifetime. But if your main goal is estate planning and you are focused on a guaranteed death benefit, then universal life may be the preferred choice, as those policies can often be designed to be less expensive than whole life.

**Important considerations**

Strength of issuer**.** It's important to research the strength of the life insurance company issuing the policy. Because a policy could be in force for 30 years or longer, the family must have confidence that the insurance company will not go out of business during that time. It's key to find a company that delivers the right balance of low premiums and high-quality credit ratings, so you can have peace of mind regarding your long-term decision.