

## THANK YOU TO OUR SPONSORS:



# Estate Planning for the Mid Market



# Federal Estate/Gift/GST tax changes

- 2021 unified credit exemption
  - \$ 11.7 million per person
  - \$ 23.4 million for a married couple
- On Jan 1, 2026, exemptions scheduled to go back to (inflation adjusted) \$5 million
- Annual gift exclusion is \$15,000

*“Are both of you planning on dying in the next 5 years?  
Then we better assume the exemption is \$5 million.”*

# Non-Tax Issues-Middle Market

- Manage future distributions
  - Minors
  - Second relationships
  - Special circumstances
- Other estate settlement costs
- estate equalization

# Manage Future Distributions

- Minors
- Second relationships
- Special needs

# Distributions to Minors

- Minors may not be well suited to own large amounts of assets immediately upon age of majority
- Maybe it would be better to delay the distribution until a later time/age
- Consider a testamentary trust

# Second Relationship

## Possible Dilemma:

- Current spouse/significant other vs. children from prior relationship
- Children of current significant other vs. children from prior relationship

## Second Relationship

Possible solution:

- Trust to benefit spouse, children, step-children, etc.
- Life insurance to fund the trust

# Special Circumstances

## Children:

- **Special needs trust**
  - Child still qualifies for governmental program support
  - Assets are available for incidentals
  - Any remaining benefits can pass to other family members or to charity
  - Life insurance works well as a funding vehicle

# Special Circumstances

## Children:

- Spendthrift trust

- Trust principal is protected until some future time or event
- Assets may be available for emergencies or incidentals
- Parent has control beyond their lifetime
- Life insurance works well as a funding vehicle

# Preserving the Stretch

- For many in the middle market, retirement plan assets (qualified plans, IRA-based plans, etc.) are the largest asset they own
- The stretch IRA is still available but only to select beneficiaries
- Will it really be stretched?

# Preserving the Stretch

- **SECURE Act Changed the Rules**
  - Life expectancy payouts only occur for eligible designated beneficiaries (EDBs)
    - Surviving spouse beneficiary
    - Beneficiary less than 10 years younger than the deceased
    - Minor children of the deceased
    - Chronically ill individual
    - Disabled individual
  - Adult children have 10 years to receive a payout
  - Life insurance paid into a trust can last as long as the grantor wants

# Preserving the Stretch

- Leveraging while you are alive
- Capital transfer
  - Leverage the retirement assets into life insurance
    - Systematic withdrawals if variable annuity with living benefit riders
    - Annuitize
    - RMDs if clients don't want to give up access to principal by annuitizing
    - Show the internal rate of return!

# Preserving the Stretch

- Give 'em something to spend
- Buy life insurance so they can spend without invading the IRA/qualified plan
  - Final expenses/probate fees
  - Wind down business
  - Take a vacation
  - Buy a hot tub
- Or, pay the taxes that comes with the IRA

# Preserving the Stretch

- Make It a tax-free asset
- Like the idea of converting to a Roth but just can't make yourself pay the taxes?
  - Buy life insurance so the surviving spouse can pay the taxes on the conversion
    - No more taxes or RMDs during spouse's life
    - No taxes at the next generation

# Estate Settlement Costs

# Estate Settlement Costs

Many estates may never incur the federal estate tax with the exemption so high however, ALL estates have estate settlement costs

# Estate Settlement Costs

- Funeral Expenses
- Medical Expenses
- Property Tax
- Income Tax
- Attorney's Fees
- Accountant's Fees
- Appraiser's Fees
- Executor's Fees
- Trustee's Fees
- Probate Court Costs
- Credit Card Debt
- Outstanding Loans
- Mortgage Debt
- Monthly Bills
- Maintenance Costs
- Education Costs
- Business Expenses
- Estate/Inheritance Tax

# Estate Planning



## Understanding the Costs of Settling an Estate

All estates – regardless of their value – have expenses that need to be paid before assets are distributed to the heirs. In smaller estates, the impact of settlement costs may actually be much greater than in larger estates.

Are you aware of the costs you may have to pay to settle your own or a family member's estate? If estate settlement expenses aren't met, assets in the estate may need to be sold to cover the charges.

*For more information about how to help meet your estate planning needs, contact your insurance agent.\**

### Here's a list of possible estate settlement costs you could incur:

<b>Final Expenses:</b>	
Funeral	\$ _____
Medical	\$ _____
Long-term care	\$ _____
<b>Advisors' Fees:</b>	
Attorney	\$ _____
Accountant	\$ _____
Appraiser	\$ _____
Executor	\$ _____
Trustee	\$ _____
<b>Taxes:</b>	
Property	\$ _____
Income	\$ _____
Estate/Inheritance	\$ _____
<b>Debts:</b>	
Credit Card	\$ _____
Loans	\$ _____
Mortgage	\$ _____
Monthly Bills	\$ _____
<b>Other:</b>	
Probate Costs	\$ _____
Education Expense	\$ _____
Maintenance Expense	\$ _____
<b>TOTAL</b>	\$ _____

*How do you plan to pay for these potential costs?*

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\*In OR and WA: producer

# Estate Settlement Costs

Don't forget about Long-Term Care expenses:

What would additional expense for long-term care do to the average estate plan?

Long-term Care Insurance

# One Problem for the Estate

Lack of liquidity:

- Asset value may exist, but can that pay the bills without liquidating assets
- Liquidating assets takes away from the inheritance of the family
- Liquidating assets creates taxes that must be paid
- Life insurance avoids the liquidation

## More Solutions for Long-Term Care

- Stand alone LTCi policy-choose for inflation protection, customization and Partnership Program
- Life policy with LTCi rider-choose to address the “use it or lose it” argument and can meet underwriting
- Life with Chronic Illness rider-good for clients that can’t get LTCi insurance or the rider

# Estate Equalization

# Estate Equalization

Dilemma:

- Not all assets in the estate are easily divisible
- Not all heirs are interested in owning all estate assets
- Not all heirs (or in-laws) get along

# Solution

- Life insurance payable to other heirs
- Life insurance does not have to equal the value of the other assets being distributed
- Equal versus equitable
- Communicate plans to all parties

## Remember:

Death can occur at any time; transferring an estate according to the owner's wishes doesn't just happen—it takes planning

Our products, if designed properly, allow the estate plan to operate as it was intended

# Questions and Answers!