ESTATE PLANNING

Family gifting strategies

After building your wealth and reaching a place of financial security, you are now in a position to begin sharing wealth with your loved ones. Lifetime gifting is a powerful estate planning technique that enables you to enjoy seeing loved ones benefit from your legacy during your lifetime.

How does gifting work?

Under IRS guidelines, you can give up to the annual gift tax exclusion amount ($15,000 in 2020, as indexed for inflation) every year to any number of recipients, free of gift tax. Married couples can apply both of their exclusion amounts to a single gift – effectively doubling the exclusion amount – provided they both consent and properly file a timely gift tax return.

Magnify your gift

You can leverage your annual gifts through the use of permanent life insurance. In addition to death benefit protection, permanent life insurance provides long-term, tax-deferred accumulation that is accessible through policy loans. Several options are available:

1. Purchase life insurance for your child, protecting their family and supplementing their retirement income.
2. Purchase life insurance for your grandchild, providing an education fund and eventually a cash accumulation fund.
3. Purchase trust-owned life insurance on yourself, naming the trust as beneficiary.

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Buying life insurance for children and grandchildren: Who should own the policy?

Parents of the insured
Parents have total control over policy, can manage until child is a responsible age. Gift taxes may apply when transferring ownership later.

Trust
A trust offers flexibility and control, but involves legal fees to create and possible ongoing administration costs.

Child/insured
Generally, a minor child is not competent to own a life insurance policy. However, you could set up a custodianship where an adult will manage the policy on behalf of the child until the child reaches adulthood (age 18 or 21, depending on state law).

Grandparents of the insured
Grandparents have total control over policy, but receive no current gift or estate tax benefits. Consider naming a successor owner to avoid probate.

The benefits

- When the time is right, parents or grandparents who own a policy on the child/insured's life could gift the policy to the insured by submitting a change of ownership request. This allows the insured to personally own the policy. Consult your tax advisor, as gift taxes may apply at the time of the transfer.
- By purchasing life insurance, you can magnify annual gifts made to your heirs. In addition to death benefit protection, permanent life insurance provides long-term, tax-deferred accumulation that is accessible through policy loans.
- Assets given away often pass outside of probate, simplifying the administration process for your heirs.
- Lifetime gifts can also provide estate tax savings by removing the asset and its future appreciation from your taxable estate.

Additional considerations

- Be careful of unintended tax consequences as you select a beneficiary when a contract owner is different from the insured. Consult with your tax advisor for further guidance.
- If the insured is a minor, a parent must sign the application and there must be at least twice as much life insurance on the parents' lives as there will be on the minor child. There should be at least a 2-to-1 ratio, parents to child.
- Gifts must be of a present interest to qualify for the annual exclusion amount. For example, if you are giving cash for premium payments to an Irrevocable Life Insurance Trust ("ILIT") – which usually provides trust beneficiaries with a future benefit in the form of death benefit proceeds – the trust document must contain proper withdrawal powers.

You can learn more about the power of gifting by requesting our brochure, Preserve Your Estate for Your Beneficiaries (Form 2307).

Find out whether gifting with life insurance is the right strategy for you by contacting your Ohio National financial professional today.

Policy loans, if taken, reduce the death benefit. If policy loan interest is not paid and the policy terminates, a taxable event may occur. Loans and withdrawals from life insurance policies that are classified as modified endowment contracts may be subject to tax and, if taken prior to age 59½, a 10 percent federal tax penalty may apply.

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