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THE TEN MOST COMMON LIFE INSURANCE MISTAKES AND HOW TO AVOID THEM

The purpose of this commentary is to spotlight mistakes (or pitfalls) involving personal and business life insurance. The mistakes are those that I have seen, all too frequently and repeatedly, in almost 40 years of practice in the life insurance and estate planning profession.

Each of these mistakes has two commonalities: First, each has potentially serious consequences in terms of expense and aggravation. Second, each could easily have been avoided or, if found in time, corrected quickly and inexpensively.

There is a relatively simple solution to each of these common mistakes.

Who cares if these mistakes are not found and fixed? Certainly not the IRS. It profits from the mistakes of omission or commission made by others. The parties who care most about these mistakes are those families, relatives, friends, businesses, and charities that must make do with less or do without.

For insurance and other financial service professionals, it is imperative that you are on the alert to spot potential planning mistakes and pitfalls – whether they occur during the initial planning phase or after the insurance is placed in effect.

MISTAKE 1:
THE CLIENT'S ESTATE IS NAMED AS BENEFICIARY

COMMENTS: First, naming an estate as beneficiary of life insurance dooms the proceeds (in most states) to needless state inheritance taxes or to a higher rate than if the proceeds were payable to a named beneficiary.

Second, this mistake also makes it certain that creditors have full access to the life insurance proceeds – even though most states' laws provide full or significant exemption from the claims of creditors for life insurance payable to named beneficiaries such as a spouse, child(ren), parent, or sibling.

(For a state by state chart of life insurance and annuity exemptions, see Rothschild and Rubin, Creditor Protection for Life Insurance and Annuities, *The Journal of Asset Protection*, May 1999.)

Third, by naming the insured's estate as beneficiary, it is almost guaranteed that the proceeds will be subjected to the expense and potential aggravation and delay of probate.

PLANNING TIPS: Are there situations in which a relatively small amount of insurance proceeds should be paid to the client's estate? Probably. Particularly in states where there is no inheritance tax on life insurance proceeds, or if the client's estate is almost certain to be well below the federal estate tax exclusion, then sufficient insurance payable to the estate to meet known and anticipated obligations and estate expenses may be appropriate. But in most cases, the suggestions below will result in a more efficient and effective use of life insurance.

Be sure the beneficiary designation of individually owned, group, pension, association, and any other life insurance coverage, is up-to-date and names the persons or organizations the client intended to receive it.

Cut out the taxman and others who should not be recipients.

MISTAKE 2:
FAILURE TO NAME AT LEAST TWO "BACKUP" BENEFICIARIES

COMMENTS: If the sole beneficiary predeceases the insured/policy-owner (even if only by minutes), and no change was made to the beneficiary designation, the proceeds will be paid to the insured's estate. This would needlessly subject the proceeds to all the problems of Mistake 1 just as if the insured's estate were named as beneficiary.

PLANNING TIPS: Employ the "Rule of Two." The client should name two backups for every beneficiary under the life insurance policy (as contingent beneficiaries).

It may be prudent to check with the insurance company for sample language to designate multiple beneficiaries. Make sure the beneficiary designation is unambiguous and acceptable to the carrier for policy administration as well as payment of proceeds purposes.

Note: The "Rule of Two" is a good practice for all dispositive documents and contracts. For instance, the client should provide two beneficiaries for his/her pension or profit sharing plan, HR-10, or IRA.

Similarly, he/she should name two backup guardians for minor child(ren), two backup executors and/or trustees in case, for some reason, the selected persons/entities fail to qualify or cease to act.

MISTAKE 3:
THE POLICY PROCEEDS ARE PAYABLE OUTRIGHT TO MINOR CHILDREN OR GRANDCHILDREN OR TO HANDICAPPED OR EMOTIONALLY IMMATURE OR FINANCIALLY IRRESPONSIBLE INDIVIDUALS.

COMMENTS: Improper disposition of assets is one of the most frequent and serious of all estate planning errors. It occurs when the wrong asset goes to the wrong person, at the wrong time, or in the wrong manner, or both.

For example, "equal is not necessarily equitable." Perhaps the beneficiaries (children and/or grandchildren) have different needs or abilities to handle various sums of money. Should they all receive equal shares of the client's life insurance proceeds? Should they receive their shares outright? Are they emotionally and intellectually ready to receive such large amounts now?

In many cases, state statues will tie up the proceeds and make it expensive or time consuming for beneficiaries to receive their money. Since minors are under a legal disability, therefore insurance companies will not knowingly pay large amounts of death proceeds outright to them. So, a guardian or custodian (of the minor's property) will have to be appointed by court, at the child's expense, to "dole" out the proceeds.

It is clearly imprudent to pay a lump sum of almost any amount to a spendthrift child – even if that child is legally an adult. It may be equally foolish to pay a large sum of insurance proceeds to an individual with little or no financial management experience.

PLANNING TIPS: Often, the best solution is to set up a trust (or trusts) for the beneficiaries (e.g., insured's children and spouse, if appropriate) and name the trust as the recipient of life insurance proceeds.

A great deal of flexibility can be incorporated into the trust instrument(s), and many legal restrictions imposed on outright distributions can be avoided. This is a much safer and surer way to provide financial security for those who cannot or do not want to handle large sums of money or other assets.

A very cost effective alternative, where the amount involved is more modest (or for any reason a trust is impractical or not desired), is to have the insurer pay out policy proceeds under the "settlement option" arrangement. In lieu of a lump sum payment, the insured/policyholder can stipulate, in a "settlement option" agreement with the carrier, the "optional" method(s) of payment for his/her beneficiary or beneficiaries to receive the proceeds (e.g., the frequency of payment, and the payment period, etc.).

This conversion of insurance proceeds into a long-term or even lifetime annuity may be an elegant solution to many dispositive problems. (Note: The "settlement option" agreement must be prepared by the carrier. Certain requirements or standards may be imposed by the carrier for administrative purposes. Therefore, the terms and provisions of the agreement may be less flexible than those of a trust. This may, however, be an advantage – rather than a disadvantage – in the event the client wishes that only relatively small monthly fixed payments be made to certain beneficiaries.)

MISTAKE 4:
FAILURE TO CHECK THE CLIENT'S POLICIES AT LEAST EVERY THREE YEARS.

COMMENTS: An astounding number of policies are payable to ex-spouses or others whom the insureds would not have wanted to receive the proceeds. Children born after a policy was purchased are often inadvertently omitted. Sometimes, the person named is long deceased.

These problems occur because it is easy to forget who was named as the beneficiary of life insurance purchased several years ago. And many policies have not been checked – and the beneficiaries verified – for ten or more years. In some cases, existing policies have long been totally forgotten.

Forgoing a once-every-three-years checkup also makes it likely that the client may not have the best possible type of policy to meet present needs, or that there are valuable options not exercised. The client's coverage may be dangerously out-of-date and inadequate because of a change in the client's circumstances, or merely because inflation at two or three percent per year has gradually eroded the purchasing power of the coverage.

PLANNING TIPS: Make sure you keep your client's file up-to-date. If necessary, contact the home office for current policy status (e.g., check the ownership and beneficiary designation, the base plan of insurance, any supplemental benefits and/or riders, the current policy values, etc.). Compare the status with your file information, and update as needed.

Has the client made changes without working through you (or your office), or your knowledge? More importantly, determine if these changes have inadvertently caused any potential adverse tax consequences. Can the mistake be fixed? "Educate" your clients to direct their policy service requests through you or your office, and set up a "quality control" system to spot potential problems.

Emphasize to the client the need to keep you informed of significant changes in personal (e.g., marriage, divorce, birth of a child, etc.) or financial circumstances (promotion, acquisition of business interest, etc.) to ensure that the insurance program meets his or her specific needs and current objectives.

Check to make sure that the persons or charities named are the people or organizations your client wanted as beneficiaries. It is equally important to confirm that the proceeds are payable to the appropriate beneficiaries in the manner that best meets their needs, abilities, and circumstances, and the client's goals as well.

MISTAKE 5: THE CLIENT OWNS ALL THE INSURANCE ON HIS OR HER LIFE.

COMMENTS: If the client's estate (including the death benefit from life insurance and retirement plans) will never exceed the federal exclusion amount (currently $1,500,000), then federal estate taxes may not be a problem.

But if the client's estate is likely to be greater than that amount over time, the ownership of insurance by the insured may lead to needless federal estate tax inclusion. That, in turn, usually results in unnecessary federal (and in some cases state) estate tax liability.

PLANNING TIPS: Ideally, an irrevocable trust or a responsible family member (e.g., spouse – assuming the insurance is on the insured's life only, or adult child) should be the purchaser, owner, and beneficiary of the life insurance policy.

If the insured never owns the policy or has any rights in it, it cannot be included in the insured's estate (even if he or she makes cash gifts to the policy-owner who then voluntarily uses the gifts to pay premiums).

If it is necessary to transfer the ownership of an existing policy, you must make sure that the transfer is either a gift, or that it falls within one of the other exceptions to the "transfer for value" rule in order to preserve the tax favored treatment of the proceeds.

In a personal insurance setting, the most obvious exception is to "transfer" the policy as a gift from the insured (transferor) to the new owner (transferee). Currently, the value of the policy for gift tax purposes is generally the "interpolated terminal reserve" plus any unearned premiums paid at the date of the gift. The insured must live for three years after the transfer; otherwise, the proceeds will be includible in his/her gross estate.

Alternatively, the insured may sell the policy (for full and adequate consideration) to his/her "grantor trust" and avoid the three-year rule. Although the transfer is "a sale for valuable consideration," but the trust is the insured grantor's alter ego for income tax purposes, the transfer is considered as being made from the insured to the insured – a tax nullity. Therefore, the transfer does not fall under the "transfer for value" rule.

If the transfer is to a single transferee (e.g., a spouse, a child, or an irrevocable trust), the gift can be structured to qualify as a "present interest gift" and will qualify for the unlimited marital gift tax (for gift to US citizen spouse) or the annual exclusion (currently $11,000 to the child/new owner, or to each individual beneficiary under the irrevocable trust).

Depending upon the value of the gift and other gifts to the same donees, the client may "split" the gift with his/her spouse, or utilize his or her gift tax exclusion amount (as well as that of the spouse) to offset any current gift tax liability.

Beware that if a policy is transferred to more than one person, the gift is a "future interest gift" and will not qualify for the gift tax annual exclusion. This is because none of the joint owners would be able to exercise policy-owner rights unilaterally or without the consent of the other owners. In this case, the client may use his or her available gift tax exclusion amount to offset the current gift tax.

If it is absolutely necessary to have multiple owners/beneficiaries and establishing a trust is not a viable option, then consider severing the policy into multiple policies and transfer each to a single new owner, who will be the sole beneficiary of the policy.

I generally recommend against joint ownership of life insurance, if for no other reason than practical difficulties. For instance, your client and her brother are joint owners of a policy on their mother's life. Your client's brother dies and now your client is a joint owner with her brother's sole heir under his will, the Society for Perpetuation of Starving Penguins in Aruba. Your client can take no action with respect to the policy without the Society's joint approval. A better solution would be the use of multiple policies as I suggested above, each owned by and payable to an individual policy-owner/ beneficiary.

Another potential pitfall may occur after the policy ownership has been changed, but no new beneficiary designation is made by the new owner. Be sure the new owner (spouse, child or trustee) completes and submits a change of beneficiary form – naming himself/herself/itself, (i.e., the new owner) as the beneficiary. Note: If a policy is owned by someone other than the insured (e.g., spouse), and the proceeds are payable to beneficiaries other than the owner (e.g., children of the insured), the proceeds received by the beneficiaries will be treated as gifts from the owner. (See Mistake 8 for pitfalls involving beneficiary designations under business insurance.)

[NOTE: The same potential planning pitfalls with respect to gift tax exposures discussed above apply to second-to-die policies as well.]

MISTAKE 6:
THE AMOUNT OF PERSONAL COVERAGE IS INADEQUATE FOR THE CLIENT'S FAMILY FINANCIAL SECURITY OR ESTATE PLANNING GOALS.

COMMENTS: With an ever increasing deficit, the federal estate tax at this time is far from dead. EGTRRA did not do away with estate or death taxes permanently. Wealthy clients would be foolish to assume in their planning that there will be no federal estate tax at death.

In fact, no matter what happens at the federal level, state death taxes can be astoundingly (and, for almost all clients, surprisingly) high – to recapture the loss in revenue under the current federal estate tax system.

Death taxes, of course, are only a small part of a decedent's survivors' needs. All too often, individuals never realistically know the true cost (i.e., the after-tax, after inflation and after brokerage/management fees) to maintain his or her survivors' standard of living. Will the survivors have enough – after taxes, payment of debts and other expenses – for food, clothing and shelter (in other words, the bare necessities)? How about education for the children?

Most people (whether they have children or not) are well aware of the costs of higher education. Your clients may now (or will) be paying for college and graduate school (and even private secondary school) tuitions, which can easily amount to hundreds of thousands of dollars.

Just because children are grown and the client is no longer legally financially responsible for them, it does not mean the need for insurance also ends. In fact, under the current economic environment, it is needed now more than ever. There are many parents or grandparents providing financial support for the families of adult children, particularly in cases where a grandchild is physically or mentally or emotionally disabled.

More and more, people realize how much they have to rely on their own resources (apart from income derived from government programs and employer provided pensions) to maintain their life style after retirement, as well as provide their survivors with a standard of living. Individuals seldom calculate how little after-tax, after-expenses income is produced by a money-market account, a mutual fund or stock portfolio (particularly one in trust – and even with reasonable trustee's fees).

PLANNING TIPS: Perform a no nonsense insurance analysis of what the client has in terms of the types and amounts of coverage. Determine what the family would need if the client were to die or become disabled. Invest your time and help your client. For instance, apart from life insurance, do not overlook the client's need for adequate disability income insurance, or business overhead insurance (especially if he or she has a professional practice).

Over and above all the amounts necessary to keep a family at the standard of living the client feels is appropriate, consider having the client's spouse own and be beneficiary of an additional policy of insurance equal to at least one year's gross income on the client's life. Likewise, if the client's spouse is working outside the home, it is necessary for the client to own and be beneficiary of a policy on the spouse's life. This is what I call a "Survivor's Shock Absorber" (SSA).

Psychologically, an SSA "buys time" for the surviving spouse to adjust – at least financially. He or she knows that – for one whole year – nothing has to change and no snap decisions are necessary about moving or making radical adjustments in life style. This SSA cushion can help avoid panic decisions and make an incredible difference in terms of financial security and psychological well-being. I suggest the SSA be owned by and payable directly and outright to the surviving spouse – regardless of the ownership of any other policy.

MISTAKE 7:
THERE HAS BEEN NO INVESTIGATION TO SEE IF THE CLIENT'S EMPLOYER, BUSINESS, OR PRACTICE CAN PROVIDE INSURANCE ON A MORE EFFICIENT BASIS.

COMMENTS: Does the client own, control, or have a voice in the decision-making process of a closely or publicly held business? If so, the use of business dollars (as opposed to after-tax, out-of-pocket personal dollars) may be much more cost effective (in terms of tax and cash flow) to provide financial security for the insured's family. In a nutshell, it is probably costing more than it should if the insured pays for life insurance entirely with after-tax personal dollars.

PLANNING TIPS: Consider how to maximize life insurance benefits provided or sponsored by the client's employer or business or retirement plan. Prepare for the client a breakdown of the advantages and disadvantages of DBO (Death Benefit Only) a/k/a Salary Continuation plans, nonqualified deferred compensation, Section 162 Bonus plans, group term life insurance, group term carve-outs, and non-equity split-dollar life insurance, if appropriate. If any of these terms are unfamiliar to the client, it is an indication that the planning team needs to revisit what such plans are and what they can do for the client and his/her family.

MISTAKE 8:
PART, OR THE ENTIRE AMOUNT, OF BUSINESS-OWNED LIFE INSURANCE PROCEEDS IS PAYABLE TO THE INSURED'S PERSONAL (INDIVIDUAL) BENEFICIARY.

COMMENTS: This mistake occurs most often when there is a need for insurance coverage by a third party (other than the business/policy-owner) on the life of the insured and in an attempt at cost-savings and for expediency reasons, the third party (e.g., the insured's spouse, creditor, co-shareholder, etc.) is named as beneficiary to receive part, or all of the proceeds from a corporate-owned policy. The proceeds when received will be taxable as ordinary income to the beneficiary.

The taxation of the proceeds will depend upon the relationship of the parties involved. For example, if an insured shareholder's spouse is named as beneficiary of corporate-owned life insurance, the proceeds may be taxable as a distribution (dividend) if the insured was a shareholder.

If the insured was not a shareholder, then the proceeds may be taxable as compensation – because of the insured's services to the business/employer. In that case, the business may be able to deduct the amount paid to the insured's spouse – provided it is deemed "reasonable."

In the examples above, if the IRS didn't claim the proceeds were taxable as dividends or as compensation, it might claim the premiums were dividends or compensation. In other words, the Service has up to four ways to tax corporate-owned life insurance payable to a beneficiary other than the corporation or its creditors.

Another example of this planning pitfall is when an entity purchase arrangement is changed to a cross purchase plan. Proceeds from the existing corporate-owned policy on a shareholder's life is made payable to his/her co-shareholder, so that it could be used to purchase the deceased shareholder's stock interest. Even if the co- or surviving shareholder was not named as beneficiary, but the proceeds were used on behalf of the surviving shareholder to purchase the decedent's stock interest, the proceeds will be taxable. The proceeds may be considered a taxable distribution to the non-insured shareholder recipient, or be income taxable as the result of violating the "transfer for value" rule (i.e., if a "valuable consideration" such as reciprocity could be found for the "transfer").

The obvious "fix" to the problem is to change the beneficiary designation by naming the business as the sole beneficiary, and purchase new insurance needed by the spouse or co-shareholder, etc.

PLANNING TIPS: Beware of the "transfer for value" rule. It is perhaps one of the most insidious tax traps for life insurance planning. The valuable "income-tax-free" treatment of life insurance may be lost – by inadvertently transferring the policy ownership, or an interest in the policy, to the wrong party.

Fortunately, there are numerous and relatively easily met exceptions to the rule. (See Mistake 5 above for discussions on transfers as a "gift" and transfer to the "insured" exceptions.)

Explore with the client the business structure and his/her personal circumstances to see if there is any available "exception" (or the possibility of creating one, if feasible). For example, instead of naming the insured's spouse as beneficiary of a business-owned policy, the business may transfer the policy (or sever the policy and transfer the needed portion) to the insured.

The insured can then gift the policy to his/her spouse who could name herself owner and beneficiary. Or, if the insured has a grantor trust, the business may sell the policy (for full and adequate consideration) directly to the trust – thereby avoiding the three-year rule as well as meeting the exception to the "transfer for value" rule.

Neither approach is without its "costs." In the two-step approach, the insured has to recognize income when he/she receives the policy from the business, before gifting the policy to his/her spouse. Should the insured die within three years of the gift, the proceeds would be includible in his/her gross estate. The "costs" for the sale to the grantor trust may involve the cost of setting up the trust, plus "seeding" the trust to purchase the policy, and the ongoing expense of maintaining the trust.

Another viable solution to avoiding the "transfer for value" rule is the use of the "partner/partnership" as the exempt party. Some businesses are structured to include both corporate and partnership enti ties. Life insurance may be transferred between and among partners, and partnerships in which the insureds are partners. Therefore, if the shareholders in the buy-sell example above also are partners in a bona fide partnership, then the corporate-owned policy may be transferred to the insured's partner without triggering the transfer for value trap and losing its income tax-favored treatment.

MISTAKE 9:
FAILURE TO REVIEW THE ADEQUACY AND APPROPRIATENESS OF THE CLIENT'S BUSINESS INSURANCE POLICIES AND/OR BUY-SELL AGREEMENT AT LEAST EVERY THREE YEARS.

COMMENTS: As with personal life insurance, many business insurance policies and related documents probably have not been checked or reviewed in years. Consequently, some of the same challenges of keeping your clients' personal life insurance up-to-date also apply to their business insurance. The process of checking, verifying and updating your client's coverage for his/her business needs may be more complicated – especially if the business or business interest is the major (or largest) asset in his or her estate. For instance, if the client owns a closely held corporation, how and to what extent will the business interest impact on his/her personal and wealth transfer (a/k/a estate) planning?

Assuming the client has a business succession plan, is there a buy-sell arrangement? What is the business value and how is it determined? How current is the business valuation? What type of agreement is it: an entity or cross purchase plan or the hybrid "wait and see?"

What are the "triggering" events? Is the agreement funded with insurance? Are there key employees other than the business owners? What kind of key person indemnification coverage does the business have on the business owners and/or key people? Are there insurance-related benefits to attract, reward and retain key employees?

PLANNING TIPS: Make sure your client has a business valuation done by an independent, professional appraiser. The valuation should be fair and equitable to the parties involved, and the method(s) used should be acceptable to the IRS.

A legally binding buy-sell agreement (under applicable state law) must be drafted by a competent attorney and executed by the parties to the agreement.

Regardless of the type of business entity, the buy-sell agreement should stipulate the mandatory nature of the agreement (that is, the parties, their representatives, or estates, are obligated to "buy" or "sell" their interest); the triggering events upon which the buy-sell occurs (e.g., upon an owner's disability, retirement or death); the purchase price and/or a valuation formula, and the timing for future evaluations.

Work with the client and his/her advisors (as well as other parties to the agreement), if necessary, to make sure that the funding of the agreement by the proper party (or parties) is carried out. Permanent life insurance coverage should be used not only for buy-out at an insured owner's death, but for lifetime or installment sale as well – and the policy cash value may be used as a source of funds to meet the obligation(s) of the buyer(s). Similarly, disability insurance, if available, should be considered for the buy-sell.

Review the policy (or policies) to verify that the sum insured is sufficient to meet the funding obligation under (or required by) the agreement – if not, additional insurance should be purchased and put in place.

Remind your client that periodic and timely business valuations should be obtained. No matter how well-drafted the agreement is, or that the agreement is funded with appropriate types and amounts of insurance, the objectives of the business owners cannot be met without a valid, current business valuation. In other words, it takes all three components – and careful coordination among them – to make the buy-sell work smoothly, as well as avoid conflicts and delays: the initial business valuation (and subsequent, timely valuations), the binding agreement (between and among the parties) and proper and adequate funding.

In conjunction with buy-sell funding, consider the need for key person coverage by the business. Some businesses routinely carry life insurance on the owners for credit and financing purposes. Ask your client who are the key employees who contribute the most to the success of the business. What will happen to the business if the key person(s) were to leave? How much revenue would the business lose? How long would it take to replace the key person(s)? What if the key person were to die unexpectedly? Most of the reasons a business owns life insurance on the business owner also apply to other key person(s), and insurance on their lives should not be overlooked.

Additionally, discuss with the client the viability of using incentives (such as nonqualified deferred compensation, Sec. 162 Executive plan, etc.) to reward and retain the key person(s).

MISTAKE 10:
FAILURE TO MATCH THE PRODUCT WITH THE CLIENT'S NEEDS/OBJECTIVES.

COMMENTS: Both individual and business clients tend to confuse the term "low outlay" with "inexpensive." "Low outlay" is a measurable comparison of the premium dollars required to carry one policy with the premium dollars required to purchase another policy of equal face amount.

Term insurance will almost always require a lower outlay than permanent life insurance of any type. "Inexpensive" is a term which demands that we measure what the dollars have accomplished; i.e., the relative cost efficiency of meeting a given goal.

The client should be asking: What life insurance policy will accomplish my objectives with the least outlay? If the policy never accomplishes his/her objective(s), it is the most expensive – no matter how low the outlay!

Second-to-die or survivorship life insurance is often the product of choice for married couples because of its relatively lower outlay than single life policies. However, there are numerous situations when single life coverage (in addition to second-to-die policy) would be more appropriate for one or the other of the couple, or one policy on each life – instead of a survivorship type policy.

PLANNING TIPS: Obviously, short term products (such as level or decreasing term insurance) should be used when the need is definitely short-term, or decreasing (e.g., a short-term loan). Long term products – some type of permanent coverage – should be employed when the need is long-term or indefinite (or difficult to determine).

A combination of term and permanent coverage is appropriate if the parties are not sure how long the need will last, or if the client's cash flow is inadequate to meet the need totally with a form of permanent coverage. In other words, be sure you have matched the product(s) to the client's circumstances and objectives.

If term insurance is appropriate to solve the problem, consider using a contract with some type of "guaranteed maximum premium" feature. But be sure the client can convert to a quality viable permanent contract at a reasonable price. (Remember to follow through with the conversion.)

Permanent coverage is appropriate if the client is highly successful – for business and estate liquidity needs. Permanent coverage is even more necessary if the insured is not financially successful, since it may be the only way (in the long run) to support the life style of those he or she loves and is responsible for.

Permanent coverage is better suited to hedge against the risk of under-estimating the duration of the need for insurance. For instance, many individuals thought the cost of their lifestyle would drop at retirement, while many others never anticipated the need to provide financial support for parents (and even adult children and their children) after they (the insureds) retired. As a result, they often find that their need to maintain their life insurance policies is much longer than anticipated in order to provide the needed financial support for their surviving spouses and/or other family members.

Certainly, permanent coverage is indicated where there are retarded or physically or emotionally or mentally handicapped children who are likely to survive their parents. In this case, a single life policy on each parent may be appropriate – even if only one parent is working outside the home, and the other is the primary care giver of the handicapped child.

The need for insurance on the "working" parent is obvious. But do not overlook the need for insurance on the stay-at-home parent's life. If the "non-working" care giver parent were to die, the insurance proceeds could be used to hire a health worker to take care of the child until other arrangements could be made on a more permanent basis. The proceeds, even in a modest amount, could alleviate the immediate financial strain as well as the physical and emotional stress of the surviving parent and other family members.

Single life insurance may be needed by married clients with children from a previous marriage (who may not be much younger than the client's current spouse). In lieu of leaving assets to his/her children, he/she may use the life insurance proceeds from a single life policy on his or her life to "compensate" them for assets going to his current spouse.

The use of single life coverage for married clients may also be appropriate in a combined personal/business context. For instance, assume a married client who owns a business, his/her spouse is not active in the business, and only one of the children is active in the business. It is his/her objective to leave the business to the active child at his/her death. A single life insurance policy payable to the non-active children (either outright or in trust) may be used to "equalize" the estate inheritance among the children.

Alternatively, the child who is active in the business may purchase insurance on the parent, and at the insured's death, the child could use the proceeds to purchase the business from the parent's estate.

CONCLUSION: Life insurance is one of the most important purchases an individual and/or his or her business will ever make. As is the case with any important purchase, it is essential to help your clients avoid the pitfalls into which a buyer can so easily fall.

As an insurance or financial service professional, you must keep up to date on product trends, new planning tools and strategies, as well as pending or proposed legislative changes. Then you are more able to keep your clients informed when tax laws change, and make sure they are up to date on various legitimate and ethical tax-saving techniques available under current law.

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