

RETAIN YOUR LIFE INSURANCE POLICY

Many consumers purchase life insurance policies to provide the necessary liquidity to pay for any estate taxes imposed on their death, or to provide sufficient liquidity for the needs of their heirs.

Since the current federal estate tax exemption is \$3.5 million, many people are questioning whether they should reduce the amount of life insurance they presently hold.

Before you reduce the amount of your life insurance coverage, consider the following:

- Liquidity will still be necessary to pay the cost of funeral and estate administration expenses, any final debts you may owe, and any state death taxes which may be imposed.
- Life insurance proceeds may be necessary to provide support for the needs of your spouse and other dependents.
- Life insurance may provide the necessary liquidity to fund a buy-sell agreement for the purchase of your interest in a business or other investment.
- Life insurance may provide the necessary liquidity to pay income taxes on unrealized capital gains in tax deferred assets, such as retirement plan death benefits.

In addition to liquidity concerns, other reasons why it may not be advisable to reduce your life insurance coverage include the following:

- Your health may deteriorate, rendering you uninsurable or unable to qualify for increased coverage in the future.
- The assets comprising your estate may substantially increase in value, resulting in a larger estate than anticipated.

Carefully consider the above factors before reducing your life insurance coverage.