M INTELLIGENCE

USE INCREASED LIFETIME EXEMPTIONS TO ENHANCE ESTATE PLANNING

THE BENEFITS OF FUNDING LIFE INSURANCE

> **Many wealthy clients used all their lifetime gift and generation-skipping transfer exemption in 2020 or 2021. There is good news for these clients. The IRS recently released the 2023 exemption amounts and there is a sizable increase available for additional planning as noted in Figure 1.**

Figure 1: Increase in Available Gift/Estate & GST Exemptions

YEAR	INDIVIDUAL EXEMPTION	INCREASE	INCREASE AS PERCENTAGE
2023	$12,920,000	$860,000	7.13%
2022	$12,060,000	$360,000	3.08%
2021	$11,700,000	$120,000	1.04%
2020	$11,580,000		

The exemption is double for married clients.

Wealthy clients should consider using this increase in lifetime gift and GST exemptions to fund additional life insurance or shore up existing planning. Some considerations:

CONSIDERATION 1: PURCHASE GUARANTEED DEATH BENEFIT LIFE POLICY WITH INCREASE IN EXEMPTION

Example 1

Assume a married couple gifted their entire exemption in 2021 and now wants to gift the increase in exemption since that time to an ILIT. They could each gift $1,220,000 ($360,000 + $860,000) in 2023. Figure 2 illustrates the guaranteed death benefit that could be funded in a dynasty trust based on the client ages and assuming the premium gifts above.

Figure 2: Guaranteed Death Benefit Purchased with New Exemptions

PREMIUM/GIFT	55/55	60/60	65/65	70/70	75/75
$2.44mm (year 1)	$12,047,874	$11,146,945	$8,382,034	$5,248,021	$4,692,910

Assumes purchase of guaranteed death benefit on survivorship basis, guaranteed to age 105, preferred underwriting. Becomes a Modified Endowment Contract (MEC) in year one.

Assume the married couple wants to make additional gifts to the ILIT in 2024 and 2025 based on the assumption they will receive an increase in the lifetime exemption of $150,000 (average one-year increase through 2023 is $210,000). Figure 3 illustrates the guaranteed death benefit that could be funded based on the client ages and assuming the three premium gifts.

Figure 3: Guaranteed Death Benefit Purchased with New Exemptions

PREMIUM/GIFT	55/55	60/60	65/65	70/70	75/75
$2.44mm (year 1); $300k (years 2-3)	$14,984,239	$13,861,209	$10,420,979	$6,525,364	$5,836,140

Assumes purchase of guaranteed death benefit on survivorship basis, guaranteed to age 105, preferred underwriting. Becomes a Modified Endowment Contract (MEC) in year one.

CONSIDERATION 2: MAKE GIFTS TO ASSIST WITH SPLIT-DOLLAR OR PREMIUM FINANCE PLANNING.

Most split-dollar and premium financing arrangements use an irrevocable trust. The trust may have an ongoing commitment to making annual interest payments and will be obligated to repay the split-dollar funding or premium finance loan at some future point. Using the increase in lifetime exemption for these trusts may shore up (and even rescue) the anticipated planning especially in light of the increasing interest rate requirements.

CONSIDERATION 3: USE THE INCREASE IN EXEMPTION FOR OTHER EXISTING OR NEW PLANNING.

Clients can consider gifts to existing planning to help the plan succeed (i.e., installment sales to irrevocable trust, additional gift to underperforming, and existing irrevocable trust) or perhaps establish new plans such as outright gifting to children and grandchildren.

Now is an excellent time to implement new planning or strengthen underperforming, existing planning. Consider taking advantage of the ample 2023 lifetime exemption limits and preparing for the anticipated scale back starting in 2026. Remember the old adage, “if you don’t use it, you lose it.”

This piece was created by M Financial’s Advanced Markets experts and produced by the marketing team.

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