

## Life Insurance to Protect Family Lands

When you think of life insurance as a tool for protecting property that has been held for generations in a family, you probably think of it in terms of estate planning for wealthy landowners. You may picture the Cartwrights galloping across the Ponderosa, or perhaps, the Vanderbilts strolling across their palatial estate overlooking Hyde Park; people with huge, complex estates that need millions of dollars in life insurance to pay estate taxes and provide liquidity. What you probably haven't thought of, though, are all the people who aren't at all wealthy, yet own long held "family lands" which they dearly want to pass to their children and grandchildren. For many, this won't happen without proper planning and, yes, life insurance.

### Example One:

- **Background:** Larry and Suzanne Hoffman are both age 63. Larry earns \$40,000 per year and Suzanne \$20,000 per year. They both expect to retire within a few years and plan to live on their pensions and social security. They have about \$50,000 in personal savings. They both own long term care insurance policies that will be paid-up when they turn 65. The Hoffman's only other asset is their home (known affectionately as, "The Abbey"), an historic Federalist-style home built in the 1820's, and which sits on about 10 acres far outside of town. The property also consists of an old one-room log cabin, several barns and even a small cemetery. It is expected that the property's structures will need significant improvements by the time they pass to the Hoffman's children; the outdoor privies will need to be replaced by indoor toilets; the foundation of the main house, cracked and sliding deeper each year into a yawning crevice, will need to be shored up; and, the wild beasts will have to be driven from their lairs beneath the barns. Mr. Hoffman was born in the house, and the property itself has been in his family for almost 200 years. The house and property are currently valued at \$200,000.
- **The Dilemma.** The Hoffman's have two adult children, Hearty and Hale, whom they both love and want to treat equally in their estate. Hale, a financially successful TV meteorologist lives near his parents, and spends most of his weekends helping them out around the property. He has always shown a deep attachment to the land and has said that he wants to make sure it stays in the family for generations to come. Hearty, on the other hand, is a cardiologist who lives in another state and has never taken any interest in the family property. He has told his parents that his preference would be to sell the property at their deaths and divide the proceeds with his brother.
- **The Life Insurance Sale:** The Hoffmans decide to buy a \$200,000 second-to-die life insurance policy naming Hearty as beneficiary. Hale will receive the family property when they have both died. The remainder of their assets will be divided equally between the boys. In this case, the Hoffmans are using life insurance to equalize their estate and help ensure that the family lands stay in the family for at least one more generation.

### Example 2:

- **Background:** The same background as in the example above, but let's suppose that the Hoffmans have only one son, Hale, an ice cube salesman.
- **Dilemma:** Their concern is that Hale makes only about \$30,000 per year and, with a wife and two children to take care of, would have difficulty making the necessary repairs and improvements on the property once he inherited it. They are concerned that he might be forced to sell part of it to help pay for the repairs, or worse, do nothing and live there in abject squalor as they have for so many years.
- **The Life Insurance Sale:** The Hoffmans decide to buy a \$100,000 second-to-die life insurance policy naming Hale as beneficiary. The death proceeds will help provide enough money for Hale to cover the costs of repairing and updating the family property, and help ensure that the property stays in the family for at least one more generation.

### **Example 3:**

- **Background:** Same situation as in Example 1, above, but neither son is interested in keeping the house. In fact, they have told their parents that if they inherit it, they will tear down the structures and build a strip mall. An historical preservation society wants it, but cannot afford the repairs and upkeep needed to make the property safe for visitors.
- **The First Life Insurance Sale:** The Hoffmans decide to leave the Abbey and all its lands to the local historical preservation society in their wills. They also consent to the society owning and being the beneficiary of a \$100,000 life insurance policy on their joint lives. The society is a registered charity. The Hoffmans donate enough money each year to the society to help it pay the premiums on the life insurance policy. To the extent that the donations do not exceed 50% of their adjusted gross income, the Hoffmans may deduct the donations on their income tax return. The death benefit will help provide enough money for the society to repair the family property, and help ensure that visitors from around the world will be able to enjoy its charms for many years to come.
- **The Second Life Insurance Sale:** To help make up for the fact that they are giving the Abbey to the society and not to their sons, the Hoffmans buy for themselves another second-to-die life insurance policy, this one with a \$200,000 death benefit, naming their sons as beneficiaries. This policy's death benefit will replace for their sons the value of the lands the Hoffmans have donated.

Remember, if your clients have land, they may also have life insurance needs; needs that you can help them address.

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The Hoffman's advisors and the historical society must check state law to ensure that the requirements for the historical society to have an insurable interest in them are met. Each state has its own requirements.