

Analyzing Legacy Planning Through Life Insurance Policy For Financial Immunity Of The Family.

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Abstract

Legacy planning refers to investment in life insurance to guarantee a treasured financial legacy for surviving family members or a worthy cause after one's death. This is a strategic approach to financial planning. Because life insurance provides tax-free death benefits to recipients, it can be the finest safeguard for maintaining a family's honor. A legacy must meet three key criteria to be considered effective: liquidity, which refers to how simple it is to change an asset into cash; safety, which denotes the safety of the capital and guaranteed returns as well. Yield refers to returns are adequate in term of investment done. When it comes to attribute of effective legacy asset should be in form which can be easily handled by a child or old age parent, or homemaker with ease and comfort, the cash payoff from an insurance policy to a nominee fits all three requirements and can be freely transferred. Property however is the most sought investment which an average Indian prefers as an investment avenue lacking liquidity and often involves legal disputes which last for decades and create financial and emotional trauma for a family. One should plan one investment in such a way that it is a leveraged asset in case of any unforeseen event the family will be in the same position even though the bread earner may not be there in case of any uncertain event. Insurance policy especially whole life insurance policy generates a corpus which through nomination can be distributed as per one's need from the very initial stage of policy commencement and as and when can be modified too. Further assignment against loan too can be done partially to take care of the debt aspect hence simply the right asset selection helps to plan a legacy which ensures the right money, the right form right hand, and on the right time.

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I. Introduction

Investment such as gold, property, bullion is termed as **assets** when one is alive, but becomes **estate** when one dies. When one dies without a will it becomes **intestate**. Common problems of legacy which is seen worldwide resulting in controversies of legal battle dragging in court for years and creating an emotional and financial trouble for the family especially untimely death of bread winner during early stage of life is not planning legacy. Especially where whole family depends on that person income for livelihood. If income stops, family has to face emotional as well as financial trauma. A good legacy planning is which ensures funds in right form ideally cash, right time the funds should be transferred immediately within a year, right hand actual legal heir which can be children spouse or parents.

Insurance is considered as a necessity only next to food, clothing, and shelter, yet the reach among masses is at nascent stage. Insurance policies like term plan, whole life income plan, Annuities, etc. ensures financial safety is met plus disability and critical illness ensure regular income provision.

Insurance policy from day one ensures that all the dependents are secured in case of any tragic event proportionally as per one's need. On happening of any unfortunate event proper nomination can ensure family members getting immediately cash. Thus, the simple step which one takes at beginning of investment ensures complete safety of their loved ones.

Steps for Legacy Planning through life insurance policy:

- Determining legacy Goals:** First step in legacy planning is to define legacy goals which can be giving heirs a financial inheritance, securing a stable financial future for family or to assist a nonprofit Organisation. Strategy for life insurance will be guided by one's objectives.
- Selecting the right type of life insurance:** Term insurance policy provides a lumpsum amount on happening of death. it provides coverage for a specified term and is affordable but doesn't have cash value. Whole life insurance has lifelong coverage and a cash value that grows over time and is often used as a long-term legacy planning due to its permanence.
- Determining the coverage amount:** Analyze quantum of money needed by beneficiaries to achieve legacy goals taking into consideration factors like outstanding debts, education cost, day to day monthly expenses.
- Designating beneficiaries:** Designate the individuals or organizations that will receive the life insurance proceeds. Multiple beneficiaries can be named and distribution of percentage can be allotted.

5. **Considering tax implications:** Life insurance death benefits are typically tax-free to beneficiaries. Nevertheless, one's estate is subject to estate taxes, life insurance can be used to cover those costs, preserving other assets for heirs.

6. **Regularly review and updating plan:** Life circumstances change over time, so it's important to review legacy plan and life insurance policy regularly. Adjust the coverage amount and beneficiaries as needed.

7. **Seeking professional advice:** Consultation with financial advisors, estate planners, and insurance experts can help creating and managing legacy plan effectively. They provide guidance on optimizing strategy to meet specific goals.

Issues relating to legacy:

Dieng intestate: Many individuals fail to create a will as there is lack of awareness of importance of will. A recent phenomenon where RBI released a public issue stating 75000 crore rupees are lying in fixed deposit as there is no proper nomination a clear will can help legal heir to legitimate claim.

Rival Claim: Many times, illegitimate heir creates disputes and lands family in legal trouble over asset especially in property which takes years for settlement the ideal case can be of Baroda family dispute of Laxmi Villa which is 4 times bigger than Buckingham palace having value of 20000 crores the legal battle was settled after 23 years

Procedural Delay: In case a person fails to create a proper will the procedural delay of transfer of asset would range for years. Proper nomination which is mandatory now in insurance, fixed deposit ensures timely transfer.

Legal Loop holes: Fraud, infringement, lack of communication about assets often result in third party benefiting and creating distress for the actual claimants.

Liquidation Delays: A good investment should be easy to liquidate, property is most difficult to liquidate and cash is highly liquid asset.

Legacy to be good should ensure all criteria are full proof as leaving the heirs to defend their rights could be traumatic both emotionally and financially.

Life Insurance as Legacy tool:

Nomination: Nomination of life insurance under Section 39 of the Insurance Act 1938 and further amendment 2014 to section 39, Definition of Nominee has been changed from trustee to beneficiary, creating fair transfer of claim.

Assignment: Assignment of policies especially when person avails loan, a part of policy proceeds can be assigned to repay the debt. Thus, ensuring financial burden is not passed to beneficiary. This is done under assignment of life insurance policies under, Section 38 of the Insurance act 1938.

It is akin to transfer of property: Any transfer of property involves 1) An advocate 2) Cost of transfer 3) Time and efforts to effect the transfer 4) Privacy /Confidentiality. Posing a difficult task for families. A simple asset which anyone can handle ensures one's non-negotiable goals are fulfilled when one is there or not.

Objective of the study:

The following are the objectives of this research.

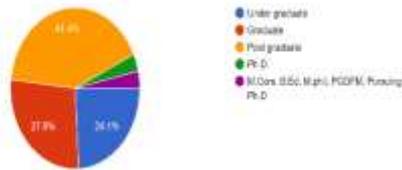
1. To find out the level of awareness among investors on life insurance as a legacy investment
2. To assess asset in balance sheet which are exclusively owned by spouse/ children parent in case of untimely death.
3. To find out assets that children too can easily manage well.
4. To check whether the title of the asset secured in their favour of beneficiary.

Research Design

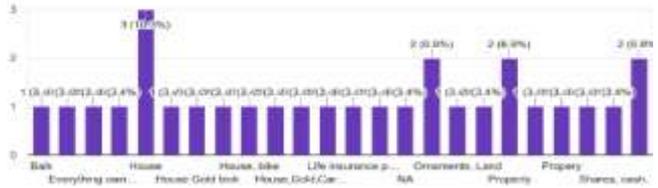
Primary research was conducted to analyse the awareness of people about insurance policy as a legacy tool. The respondents were academicians, doctors, business man and servicemen. With monthly investment in asset from 20,000 to 100000. Simple random sampling was done where 100 respondents were posed questionnaire and the analysis were done to arrive at facts and figures.

Data Analysis:

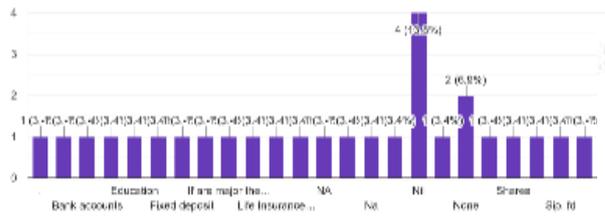
Qualification
29 responses



What are your assets in your balance sheet that are exclusively owned by your spouse/children/parents?
29 responses



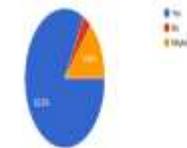
What are the assets that children can manage well easily?
29 responses



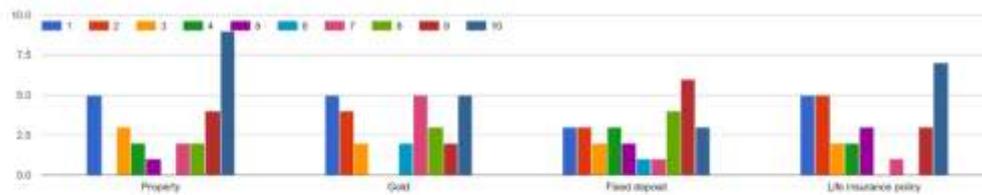
Are the titles of these assets in the name of children?
29 responses



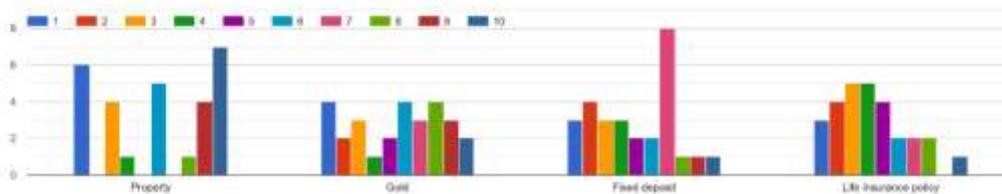
Are the titles of these assets secured in the form of lending?
29 responses



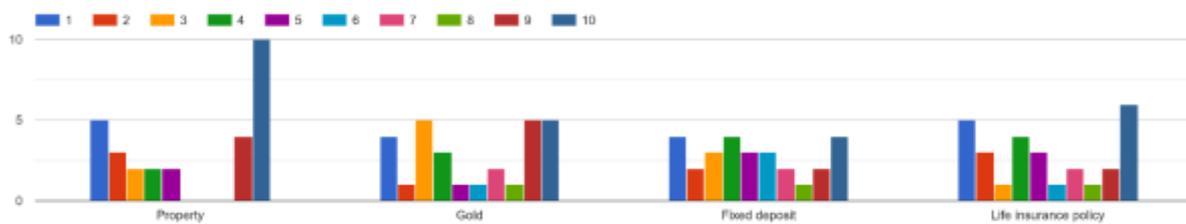
Rate safety parameter from 1-10 in the following assets:

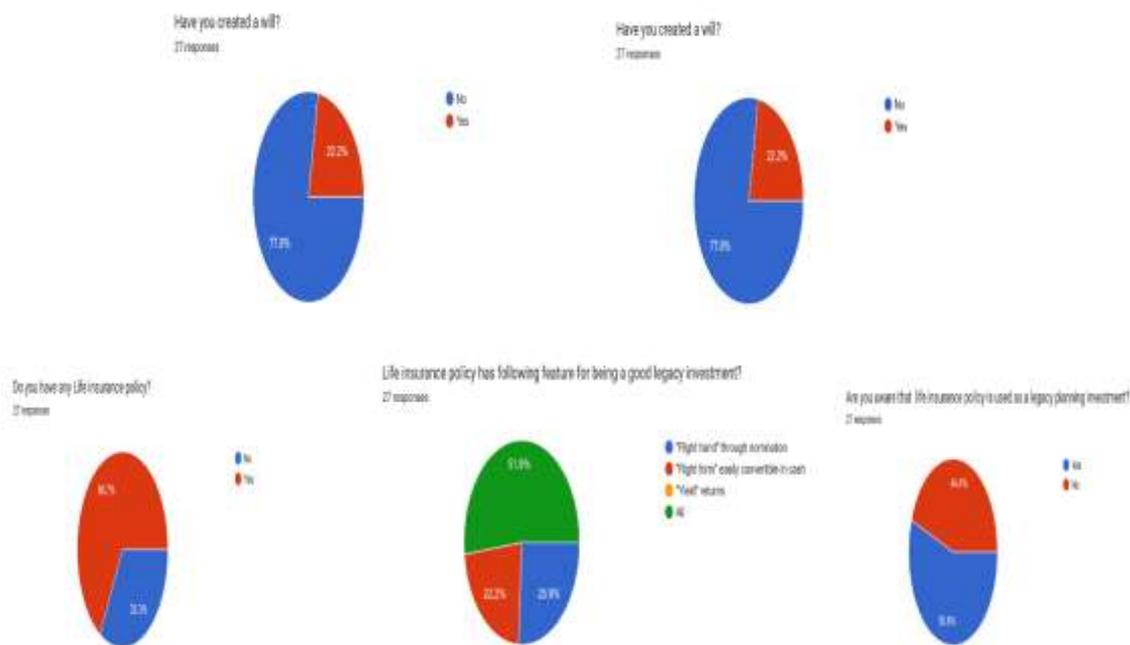


Rate yield parameter from 1-10 in the following asset?



Rate security parameter from 1-10 in the following asset:





II. Findings:

Study was carried out in Mumbai region using a sample of 40 percent male and 60 percent female respondents. The respondents ranged in age from 19 to 60 years. Graduate and undergraduate students are the next most common responders, followed by postgraduates.

A person's primary asset for maintaining family safety on a balance sheet is their place of residence, followed by jewellery, real estate, and money.

Nearly 83% of them have obtained title in the beneficiary's name. The respondent's list of assets that they believe children can manage with ease consists of cash/bank balance, fixed deposit, nil which indicates that no assets have been created yet. This demonstrates clearly that currency is a widely accessible asset that is preferred by masses.

Investment which satisfies all three parameters of safety, security and yield Property is deemed the safest asset followed by life insurance policy. Gradually, people are realizing the value of insurance and developing a fresh perspective on it as a legacy instrument.

The creation of a will was the next question to test the claim's validity. The results revealed that 50% of respondents had already created one, and 63% felt that life insurance was a suitable legacy planning tool that satisfied the criteria of having the right amount of money, the right hand, and the right timing. Half of those surveyed said they agreed.

With advancement and changing world scenario financial planning is important need of an hour through proper planning of assets one can ensure untimely death or any such misfortune does not create financial distress for families. Insurance policy until now as a legacy tool is at nascent stage which through financial education can be enhanced.

III. Conclusion:

Legacy planning through life insurance can be a powerful way to ensure loved ones and for the causes one care about are financially supported after once passing. It provides peace of mind and can help leave a lasting impact on the people and organizations one cherish.

References:

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