TEVIS
INVESTMENT MANAGEMENT

# The *other* season 5 solution: Life insurance

Now that Yellowstone has wrapped—with a happy ending for the core Dutton clan—we can take a moment to pause and look at what *actually happened* with the Dutton ranch, financially speaking.

Over the course of five seasons, producers threw quite a bit of financial and legal jargon at fans. Whether it was Beth's storyline at Market Equities (which involved a mini crash course on derivative trading for those paying attention) or the sidebar around eminent domain (used to hinder capitalist development in this case, rather than advance it), it was easy to lose the plot in the details.

At the end of the day, however, Yellowstone was a story about estate taxes. The family couldn't afford to pay the estate tax on the land's ballooning value without selling off portions of the acreage, something patriarch John Dutton was loathe to do. While Kacey discovered a clever solution in the 11th hour, there are ways to prevent exactly this type of storyline from happening. While we're glad Taylor Sheridan didn't know about these tricks a decade ago, we want to make sure *you* are aware of them now.

## Life insurance as an estate-tax tool

Life insurance may be one of the most straightforward ways to pay for estate taxes without having to sell off part of the estate. At a high level, death benefits are paid out fairly quickly, and the payments aren't subject to income tax. Beyond that, the devil is in the details.

To successfully use life insurance as a strategy to cover estate taxes, you need to make sure that any cash value attached to the policy doesn't drive up the value of the estate (thereby increasing the taxes your heirs will owe in the first place) and that the policy itself is affordable.

## Rule No. 1: Make sure the policy is affordable.

The federal estate tax on a $100 million property would be more than $30 million—a significant death benefit. The premiums and initial costs on a life insurance policy with that kind of death benefit payout could be significant. This is all the more important when you're talking about families whose wealth is largely illiquid—keeping premium costs low is essential for this strategy to work.

Luckily, there are a few ways to approach this.

- **The sooner the better.**

  Whichever life insurance strategy you select, consider starting sooner rather than later. Generally speaking, the older you are, the bigger the risk to the insurance company that you will die and they'll have to pay a death benefit. If you initiate the policy when you're young, the premiums tend to be lower, since the insurance company assumes they will have more time to collect premium payments to cover (or at least offset) any potential death benefits. While you want to take the time to ensure you select the appropriate type of coverage, with the appropriate type and size of benefits, don't spend so much time evaluating different policies that you inadvertently increase your premiums.

- **Decide if term life is an option.**

  Term life insurance policies exist, as the name implies, for a set period of time, or term. When that term expires, so do the associated death benefits. There are two distinct perks using a term-life policy.

  1. These policies are almost always significantly cheaper than a whole- or permanent-life insurance policy that never expires. When I say significantly cheaper, I mean they often cost 10% as much as a whole life policy that offers the same death benefits.

2. Term life insurance policies rarely have cash values, meaning you likely won't add to the value of your estate by purchasing a term policy; no need to read the next section on irrevocable life insurance trusts.

In contrast, there is only one major drawback: These policies expire. If you outlive the term of coverage, you'll want to have another plan in place to help your heirs cover a potential tax event. Of course, you can take out a new term-life policy, but it will likely cost more, as you'll be older and therefore considered higher risk.

- **Second-to-die life insurance policies**

  Second-to-die life insurance policies are a type of permanent life insurance available to married couples that generally cost less than two equivalent policies (one for each spouse). With second-to-die life insurance, also known as survivorship life insurance, the death benefit isn't paid out until the second spouse passes away.

  These policies usually come with a set premium based on the joint life expectancy of the couple; John Dutton's premiums wouldn't have changed when his wife died.

- **Choose whole life instead of universal life.**

  Universal life insurance is a type of whole life insurance that prioritizes the cash value of the policy in addition to the death benefit. While most whole life policies carry a cash value, universal life policies may provide more options to the policyholder—the ability to use the value to cover education or long-term care expenses, for example. This added flexibility tends to increase the policy premiums.

  If the goal of your life insurance is simply to cover estate taxes on death, the cash value isn't as important. (In fact, as you'll see in the next section, the cash value of the policy can create additional complications when it comes to estate tax planning.)

## Rule No. 2: Don’t increase the value of your estate

You can place your life insurance policy into an irrevocable trust, which will separate it from the value of your taxable estate. There are a few things to know before using an **irrevocable life insurance trust (ILIT)**. First, when you place the policy into the trust, you may trigger a taxable event, particularly if the cash value of the policy is greater than the annual gift tax exemption when you open and fund the trust. That said, the impact will be minimized; cash values tend to accrue over time, and any future growth will occur in the trust, tax free, and be paid out (federal income-tax free) as a death benefit to your heirs.

Keep in mind: I am not a lawyer and Tevis Investment Management doesn’t provide legal or tax advice; you should work with an estate planning expert and tax professional on the details. However, we can work with your broader team on evaluating various options to see which might work best to protect your family and estate depending on your specific circumstances. We can also help with executing and managing this type of strategy over time—including helping your heirs handle payouts and payments. We want to help minimize your family’s stress level, in addition to its potential tax burden.