

Life Insurance with Higher Exemption Levels
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Presentation outline

- Introduction - setting the stage
 - Role of life insurance death benefit in an estate plan.
 - Leverage - Eliminates time needed to otherwise grow money.
 - Provides cash immediately in case of death.
 - Liquidity.
 - Provides cash to owners of illiquid assets to give them greater flexibility in planning.
 - Change is continuous
 - A client's estate plan is relatively simple and involves four primary steps.
 - Assets - What do they own?
 - Beneficiaries - Who do they want to receive it?
 - Transfer - How and when do the beneficiaries receive it?
 - Leverage - how does the client increase the value, either by reducing transfer costs or using leverage?
 - Changes to any of the key elements can yield infinite variations. Key factors the client considers include:
 - Asset
 - Type of assets owned.
 - Net worth may stay consistent, but assets owned could change.
 - Value of assets
 - Market fluctuation can make the exact value difficult to predict.
 - Liquidity of those assets
 - Many assets of High Net Worth people are illiquid
 - Management of assets
 - Beneficiaries
 - Births, deaths, and marriages/divorces.
 - Tax rate
 - Income tax rate
 - Capital gains rate
 - Estate Tax Rate
 - Estate exemption amounts
- What to do with old policies with the current higher exemption?
 - If they do not need for the intended purpose, what are their options?
 - But really should be broader – what are the owner's options when any combination of changes makes the current policy design less than optimal?

- Option 1 - keep the death benefit for another use.
 - Could sell to grantor in exchange for cash or keep in trust.
 - Can reposition by sale to grantor in return for cash that can be distributed.
 - Why a death benefit, especially in a trust?
 - Equalization - what other assets do you have?
 - Liquidity - Estate may not be large enough for tax but still largely illiquid.
 - Funds for the beneficiary to keep business or RE management going.
 - IRA - provide source of cash to pay tax on IRA or an alternative to use instead of IRA.
 - Changes to IRA rules make this an attractive option.
 - Replace income - although we assume if estate was large enough in the past, income is no longer an issue.
 - Why a death benefit for a grantor?
 - Financial situation could have changed.
 - LIVE - if the client has any of these goals, the life insurance is the most cost-efficient way to handle them.
 - Legacy goals. The trust may not benefit all the potential beneficiaries.
 - Income replacement.
 - Value replacement.
 - IRA under Secure Act
 - Deferred annuities
 - Other taxes
 - Expenses.
- Option 2 - if I want to put on hold pending other changes
 - Restructure premium - Minimum fund to keep alive for future use.
 - Reduce face amount to keep alive for future use.
 - Bond alternative - restructure to minimize policy expenses and emphasize cash value growth.
 - Caution - Any face amount reduction could cause policy to become a Modified Endowment Contract (MEC).
 - Not all options are available for all policies - type of policy lay impact options
 - NLG
 - Can reduce face amount for a lower guaranteed DB.
 - UL current performance
 - Reduction in face amount reduces insurance costs
 - Whole Life

- Reduce face amount, which results in guaranteed CV returned to owner. Can be used for future premiums if desired.
 - Take reduced paid-up policy.
 - No more premium due.
 - Case Study
 - Options for a policy owner that owner wants to eliminate premium.
- Option 3 - Surrender
 - Cash value
 - Sell - Not my space. If someone is willing to pay for it, and pay a commission, then it's probably valuable enough to keep yourself.
- Conclusion
 - Life insurance policies are one of the few assets that are generally kept "as is" for life.
 - In most plans, the role of the policy will change, even though the policy will stay the same.
 - A policy owner has options, beyond surrender, that can be used to adapt the policy to the current set of goals and objectives.
 - As always, regular review makes sure the policy performance and structure are matching the present situation.