



WRMarketplace

An AALU Washington Report

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The WRMarketplace is created exclusively for AALU Members by the AALU staff and Greenberg Traurig, one of the nation's leading tax and wealth management law firms. The WRMarketplace provides deep insight into trends and events impacting the use of life insurance products, including key take-aways, for AALU members, clients and advisors.

The AALU WRNewswire and WRMarketplace are published by the Association for Advanced Life Underwriting® as part of the Essential Wisdom Series, the trusted source of actionable technical and marketplace knowledge for AALU members—the nation's most advanced life insurance professionals.

TOPIC: Case Study Series – A Look at Sales: Conquering the Generational Divide with Multi-Tiered Life Insurance Planning.

MARKET TREND: It seems many advisors focus almost exclusively on one generation at a time when providing legacy management services; however, looking across multiple generations may produce far better results for the family.

SYNOPSIS: Families will often have life insurance needs spanning generations. For advisors, viewing the entire family as one client can provide clarity as to each generation's potential tax exposure, liquidity requirements, and even financial management needs. By way of example, planning for a senior generation may only benefit lineal descendants, but not the descendants' spouses. While satisfying the goals of the senior generation, is this acceptable for the descendants, and do they have the resources to otherwise provide for their own families?

TAKE AWAYS: Familiarity with all generations of a family and their finances allows an insurance advisor to recommend tailored planning approaches that include each generational level. It also strengthens the advisor's relationships with the younger generations, who will eventually inherit family wealth. These global relationships, combined with monitoring the family's needs as a whole, create opportunities for advisors and families alike to ensure that insurance coverage adapts to each generation's changing circumstances.

For many families, life insurance needs do not stop at senior generation. Thus, legacy management requires a much more in-depth approach that includes all generations. Children and grandchildren who inherit family assets may face liquidity issues and potential tax exposure and have a desire to provide for the financial security of their own families. Engaging these family members early also can help preserve their insurability. Life insurance advisors who can identify this need and represent multiple family members create opportunities to leverage their services across generations as a trusted counselor.

MULTI-GENERATIONAL LIFE INSURANCE PLANNING: CASE STUDY

Client Background – Meet the Family. Andrew, age 61, and Beth, age 58, have been married for 38 years and have two adult children, a son, Chris, age 36, and a daughter, Diane, age 34. Andrew is a retired executive and Beth, a retired teacher. They have lived frugally and invested smartly over their lifetime, giving them a current net worth of about \$80 million. Andrew and Beth have used some of their lifetime gift tax exemptions by making gifts to various family members and their children, including helping the children purchase homes. At this time, they had \$8 million of combined federal gift and generation-skipping transfer ("GST") tax exemption remaining.

Client Goals & Concerns. Andrew and Beth were interested in doing some longer-term planning for their children that would also benefit future generations. In addition, Andrew and Beth voiced concerns about providing creditor protection for their descendants, particularly since Chris had gone through a nasty divorce in his late twenties.

Further discussion regarding their family revealed that both children are currently married with children and careers of their own -- Chris is a writer/journalist, and Diane is a college professor. Although successful in their respective careers, the income and net worth of each child is relatively modest, with each of their assets comprised mostly of a primary residence and retirement plans. Thus, the premature passing of a child before Andrew and Beth could leave the child's spouse with very limited assets and an

inability to maintain his or her current living standard, but Andrew and Beth were reluctant to include the spouses as potential beneficiaries of their planning.

Solution – A Multi-Tiered Life Insurance Plan.

Tier 1. To address Andrew and Beth’s desire to benefit generations of only their descendants, the recommendation was for a dynastic, fully discretionary irrevocable life insurance trust (“ILIT”) solely benefiting Chris, Diane, and their respective descendants. A review of Andrew and Beth’s investment portfolio revealed that they had a muni-bond portfolio almost equal to their remaining gift and GST tax exemption, which could be used to fund a life insurance acquisition. Ultimately, Andrew and Beth created and funded the ILIT with this amount. The ILIT then acquired a \$40 million, three-pay survivorship policy for premiums totaling approximately \$7.6 million.

Tier 2. To maximize the creditor protection for the ILIT’s beneficiaries, Andrew and Beth did not include spouses of their descendants as possible beneficiaries. This approach, however, meant that the premature death of a child before the child’s spouse would shift the family legacy to Andrew and Beth’s grandchildren, leaving the child’s spouse without sufficient resources of his or her own. After discussing this issue with Andrew and Beth and meeting with each of Chris and Diane, each child decided to establish a separate ILIT for the benefit of his or her spouse and descendants. Each ILIT would acquire a single-life policy on either Chris or Diane with a face amount between \$5 million to \$8 million. Since Chris and Diane were young and healthy, the policy pricing was very appealing, allowing them to consider permanent coverage (although convertible term coverage also could be an option). The ILIT funding would come indirectly from Andrew and Beth.

Results. Life insurance provided a simple planning option to meet the needs of the entire family. Andrew and Beth could implement a fully-integrated planning structure to provide for generations of their descendants, while ensuring a variety of family needs are met (e.g., financial security for children and their spouses). Familial goodwill was also created by ensuring liquidity and protection for the in-laws. By looking at the overall family needs, not just those of the senior generation, the advisors created new, long-term relationships and implemented two additional life insurance plans.

TAKE-AWAYS

- Familiarity with all generations of a family and their finances allows an insurance advisor to recommend tailored planning approaches that include each generational level. It also strengthens the advisor’s relationships with the younger generations, who will eventually inherit family wealth.

- These global relationships, combined with monitoring the family's needs as a whole, create opportunities for advisors and families alike to ensure that insurance coverage adapts to each generation's changing circumstances.
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