Life Insurance Case Study

Overview

Changing Needs

A couple in their early 60’s met with their broker to review their life insurance policies and discuss estate planning. Each client owned an individual Whole Life policy that they had been paying premiums on for the last 25 years. The cash value in the policies had grown significantly over time. The clients, recently retired after the sale of their business, now had an estate worth over $25M. Clearly, the clients' original need for insurance had changed. They no longer needed as much individual coverage for income replacement in the event of death and they no longer needed the cash value in their policies for retirement income due to the influx of cash from the sale of their business. Their focus had suddenly shifted and the need now was to satisfy a large estate tax issue.

Strategy

Innovative Thinking

The recommendation from the broker as well as their estate planning attorney was for the clients to buy Survivorship coverage owned by an Irrevocable Life Insurance Trust (ILIT). The question was - how could we access the cash value from their single life policies to help fund the new Survivorship policy? In a 1035 exchange, the value from a single life policy cannot be transferred into a joint life policy. Also, due to a significant gain in the individual policies, they could not be surrendered without creating a huge tax liability for the clients. Our idea was to take a withdrawal "up to basis" on each of their Whole Life policies (using the cash from the PUAs). With the remaining cash in the Whole Life policy, do a reduced paid up policy for each client.

Result

Exceeding Expectations

With this strategy, the clients were able to get a tax-free lump sum distribution from their individual policies to fund their new Survivorship UL policy. In addition, since the remaining single life Whole Life policies were paid up now, the clients were able use the "freed up" premiums toward the new Survivorship UL policy. The clients were very happy that not only were we able to help them fund their new SUL policy, we were able to keep some individual coverage in place as well.

**Policy can’t be a MEC / Consider waiting to do RPU (may be considered step transaction).*

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