Success Story

Advanced Markets

Planning in Action

To gift or not to gift — what are the options?

Case in point

A producer called into Advanced Markets asking for help on how to approach a high-net-worth (HNW) client who has a life insurance need for estate liquidity and legacy purposes, but has been hesitant to make irrevocable gifts to a trust. The producer has emphasized that the client's window to make large gifts to an irrevocable trust is closing — the estate tax exemption is scheduled to sunset in 2026 to ~$5M, but possibly sooner under the current administration. The Advanced Markets consultant explained to the producer that oftentimes clients are on the fence about acting on plans due the factors that make up what we call the "Triple A" approach to decision making: Age, Assets, and/or Attitude. The AMC discussed how exploring each of these elements can help uncover the true reasons a HNW client may be hesitant to act on plans now — thereby helping guide the producer to offering tailored, flexible solutions (often in the form of a financing technique) that will motivate clients to act.

Client profile

- Married couple: male, age 60, Preferred Non-Smoker; female, age 56, Preferred Non-Smoker
- Three children ages 30, 27 and 25, married
- Six grandchildren

Fact finding

The clients' objective is to enhance their legacy for future generations by shielding it from creditors, and ultimately helping ensure their wealth is passed on efficiently to future generations. They also want to create liquidity that can be used to settle the estate tax costs upon their death.

The couple recently sold their business and have a fairly liquid estate valued at about $50M. They also hold ownership in commercial real estate (valued at about $10M), which not only generates income but also provides their children with an opportunity to take full control in the future. They have not used any of their lifetime exemption but do use their annual exclusion gifts and want to continue making annual gifts. They are looking at the following insurance plan:

- $20M of single life Protection IUL (with premium of $498K over 10 years) coverage in a Dynasty Trust, and
- $20M of Protection Survivorship UL coverage (premium $296K over 10 years) to provide liquidity for estate taxes

However, as the producer explores this plan further with them, he finds their attitude doesn't support moving forward — they are hesitant to use any of their lifetime exemption and are reluctant to give up control of their assets today.

Designing a case & creating a plan

We designed two different methods of financing both the survivorship and single life policy that addressed these clients' concerns. Each method will preserve their current lifetime exemption, while also providing the option to forgive the debt in the future via a gift.

Protection IUL

A private finance loan arrangement between the male, as grantor to his Dynasty Trust, with his spouse, children and grandchildren as beneficiaries. He would loan about $8.8M of cash to this Dynasty Trust under a nine-year loan using the December 2020 AFR Rate of 0.48%. The trustee assumes the assets will return 7% return in the trust and will use the income (about $540K annually) to make the annual premium payment of $498K towards the policy along with the annual loan interest payments to the grantor of $42K. The loan would be repaid to the grantor at the end of year nine.

Protection Survivorship UL

They created a separate ILIT to provide liquidity to the trust with the children as beneficiaries. The survivorship policy will pay the death benefit on the second death of the spouses. The insureds enter into a private split dollar arrangement with their ILIT and will annually loan the premium of $296K. In order to facilitate an exit strategy for the split dollar arrangement, and in line with the desire to keep their real estate holdings in the family, they created a Grantor Retained Annuity Trust (GRAT) and placed some of their real estate, valued at about $2.3M, in this 10-year GRAT. The real estate cash flow (10%) pays an annual annuity of $238K (calculated using the December Sec 750 rate of 0.6%). After 10 years, the remainder will flow into the ILIT and can then be used to pay off the split dollar loan. The first-year economic benefit cost for this policy is $612 and thus annual exclusion gifting can be used to cover this cost.

Why it works

Each funding method provides the ability to place the insurance inforce today, while not having to use lifetime exemption gift to fund the trust. Private loans and split dollar arrangements allow the clients to decide whether to either forgive the amount due to them via a gift or to keep the loan and split dollar arrangements in place and preserve their exemption. For example, they can forgive the $8M loan and use their lifetime-exemption gift. Similarly, they can forgive the amounts due under the split dollar arrangement. The GRAT is another way to fund an ILIT and not use lifetime gifting — under its terms (10 years) the remainder (R/E) will transfer to the ILIT.

By considering the Triple A decision triangle, we were able to provide the clients with funding options based on their age (low economic benefit cost), assets (liquid and commercial real estate) and attitude (uncertainty regarding estate tax legislation) that helped them move forward in addressing their needs by acquiring the life insurance they needed.

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Call Advanced Markets at *888-266-7498, option 3* to speak with an Advanced Markets Consultant, or email *advancedmarkets@jhancock.com*

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