CASE STUDY

How a life insurance review rescued a 73-year-old widow's $5 million policy that was in danger of lapsing.

JONES LOWRY

The $5 MILLION QUESTION

SITUATION: Mrs. Smith* is a 73-year-old widow referred by a large regional CPA firm. She had moved to Florida 20 years ago with her husband who was a retired senior executive at a large Midwestern manufacturing company. As new residents of Florida, the couple decided to update their estate plan. During the process, their estate planning attorney suggested the purchase of $5 million of second-to-die life insurance to pay part of the estate tax. Because Mr. Smith had some significant health issues and was uninsurable, the coverage was placed on Mrs. Smith with a AAA-rated insurance company. The policy was issued with an Irrevocable Life Insurance Trust (ILIT) as the owner. The beneficiary was the trust which was managed by a non-corporate trustee. For 18 years, the non-corporate trustee dutifully paid all of the policy's premiums on time and thought all was well.

CHALLENGE: Upon review of the policy, Jones Lowry discovered that because of the precipitous decline in interest rates over the last 20 years, the projections made at the time of purchase were significantly off base. Not only were the projections off, but during the last 18 years, the health of Mrs. Smith had declined. A current in-force analysis of the policy clearly showed that if the trustee did not begin funding the policy at a higher level, the policy would most likely lapse before Mrs. Smith's death.

SOLUTION: Working with the CPA and the trustee, Jones Lowry was able to correct the situation by negotiating with the insurance company to determine the amount of funding necessary to keep the policy in force. At the same time, they worked with the non-corporate trustee to provide ongoing policy monitoring and service using Jones Lowry's Life Insurance In-Force Protocol System.

RESOLUTION: Mrs. Smith and her children were pleased with the results. The children decided to engage their mother's advisors to provide second-generation planning. The CPA was able to obtain the objective analysis he needed to properly investigate his suspicions that Mrs. Smith's policy might not be performing as originally projected. Finally, the non-corporate trustee, who did not know that the policy had a problem or that he had fiduciary liability for the policy's performance, was able to avoid a potential lawsuit if the policy had expired prematurely.

TAKE AWAY: You, too, could add additional value to your most valued client relationships by simply asking the question, "Have you reviewed your life insurance lately?"

*Client name has been changed to protect confidentiality.

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NEW YORK, PALM BEACH, MIAMI | 305.968.8826 | WWW.JONESLOWRY.COM | BML@JONESLOWRY.COM