RESTRUCTURING INSURANCE PORTFOLIO ENABLES BUSINESS OWNER TO LOWER PREMIUMS AND ACCOMMODATE CHANGE IN ESTATE PLANNING NEEDS

THE SITUATION

Walter Sands[1], age 64, owns a successful second-generation veterinary clinic. Twenty years ago, he and his wife, Susan, purchased two life insurance policies totaling $10 million ($8.6 million and $1.4 million) to cover their estate tax liability. The annual premium for the two policies was $101,000. Walter and Susan do not have any children and recent tax law changes have lowered the couple's estate tax exposure to $4 million.

Since most of Walter's net worth was tied up in his business and he needed to purchase new expensive equipment for his practice, he was seeking ways to lower his life insurance premiums. The Sands' CPA recommended that they consult with us. We conducted a review of the Sands' policies in partnership with the Valmark Policy Management Company (PMC).

THE SOLUTION

We analyzed several options for reducing policy premiums, keeping in mind that the Sands were willing to lower their total death benefit to $4 million to cover current estate tax exposure. The option we recommended which was ultimately accepted by the Sands, involved the following steps:

1. Decrease the face amount of the larger $8.6 million policy to $4 million with a guarantee of lifetime coverage. No new underwriting was required.
2. Accept a $160,000 life settlement offer[2] (net of fees) on the smaller $1.4 million policy and apply the proceeds toward the now $4 million policy. (The life settlement offer was $25,000 higher than the smaller policy's cash surrender value.)

THE OUTCOME

By employing our strategy, the Sands were able to reduce their $101,000 annual premium to $39,800 while being assured that their coverage was guaranteed for life.

SUMMARY	PREVIOUS PLAN	NEW PLAN
DEATH BENEFIT	$10 MILLION	$4 MILLION
COVERAGE DURATION	$8.6 MILLION TO AGE 105 $1.4 MILLION TO AGE 100	LIFETIME
ANNUAL PREMIUM	$101,201	$39,800 ($160,000 LIFE SETTLEMENT APPLIED TOWARD PREMIUM)

[1] Client name has been changed to protect confidentiality. [2] The gross offer will be reduced by commissions and expenses related to the sale. Valmark Securities supervises all life settlements like a security transaction and its' registered representatives act as brokers on the transaction and may receive a fee from the purchaser. Once a policy is transferred, the policy owner has no control over subsequent transfers and may be required to disclosure additional information later. If a continued need for coverage exists, the policy owner should consider the availability, adequacy and cost of the comparable coverage. A life settlement transaction may require an extended period to complete and result in higher costs and fees due to their complexity. Policy owners considering the need for cash should consider other less costly alternatives. A life settlement may affect the insured's ability to obtain insurance in the future and the seller's eligibility for certain public assistance programs. When an individual decides to sell their policy, they must provide complete access to their medical history, and other personal information.

CONTACT US | BILL MILLER, CFP® CLU, ChFC, AEP® | 561.613.0130 | BILL@MILLERWEALTHADVISORS.COM