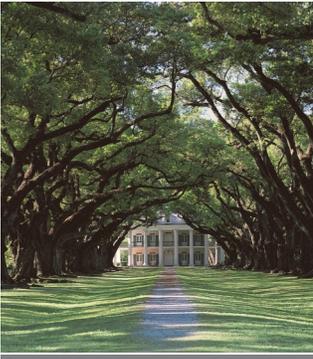


Creative Estate Planning

Efficiently Transferring Wealth to the Next Generation



Client

High Net Worth Couple,
\$50MM+

\$15MM

Needed to pay estate
taxes

Avoid Gift Taxes

Premiums cut in Half at First Death

Contracts Guaranteed for Life

Challenge

A high net-worth couple has a need for \$15,000,000 of life insurance to provide the liquidity needed to pay estate taxes at the second death. They have four children, which limits their annual exclusion gifts to \$104,000 (tax year 2012).

Typical Life Insurance Plan

A typical Life Insurance Plan would have suggested a joint policy that pays at the second death, or because of the age difference, a single life policy on the female's life only to be put into an irrevocable life insurance trust (ILIT). The cost of a \$15MM policy guaranteed for the female's lifetime would have cost \$100,000 in all years. The problem with this type of plan is that after the male's death, the female can only gift \$52,000 per year without incurring gift taxes. Since the female is expected to live 15-20 years longer, this family may pay a significant amount of gift taxes to continue the policy after the husband passes away.

Solution

- ⇒ \$15MM policy on the female's life only guaranteed to her age 85 (his age 100), annual premium is \$52,000 per year.
- ⇒ \$1.5MM policy with an increasing death benefit on the male's life only guaranteed for life, annual premium is \$52,000 per year.

Assuming the male dies before age 100, the death benefit generated from his policy will be contributed to the \$15MM policy on the female's life. This will effectively extend the female's policy so that the policy will then be guaranteed for life while maintaining the current \$52,000 per year premium.

Results

The clients avoid the risk of incurring significant gift taxes after the male's death. This plan costs \$104,000 before the male's death, and \$52,000 after his death. If the female dies first the full \$15MM gets paid to the ILIT and the male's policy can either be continued for \$52,000 per year or surrendered for cash.