1 CASE STUDY: Individual Estate Planning

The Williams family sold the family business ten years ago for $40 million. The amount of their wealth exposes them to a sizable estate tax, currently estimated in excess of $20 million. They realize that they have a critical need for life insurance to provide the liquidity to pay these taxes, but are concerned about the high annual cost. They also realize if they don't take action soon, as they get older the rising cost of new life insurance could become prohibitive. Preserving their estate for their two children would also be in jeopardy. Their primary goal is to avoid huge death taxes and prevent the IRS from becoming the largest beneficiary.

Mr. Williams (age 73) is uninsurable, but Mrs. Williams (age 68) is in good health. They have priced a $21 million universal life policy on Mrs. Williams. The lowest annual premium quoted was $462,798 per year to age 100. Since they have already used up their $1 Million federal lifetime gift exemption, they will have to pay an annual gift tax of $208,259 on each premium gifted into their insurance trust. Therefore, the total cost for new insurance coverage would be $671,057 per year. In their income tax bracket they would have to dedicate $1.16 Million of pre-tax income to meet this cost. This is unacceptable to the Williams'.

The CFS Group has proposed $21 million in new life insurance coverage through the ABIL platform. Like most ABIL case designs, the Williams' case has been modeled to provide a high probability of no out-of-pocket cost. After reviewing the structure, their two attorneys and one CPA have recommended that the Williams' proceed to implement the strategy.

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HOW IT WORKS…

The new policy will be funded for 10 years through bank loans from one of several approved international lenders familiar with the ABIL design. The loan rate is pegged to the 1-year LIBOR rate with added bank margins typically ranging from 1.25% to 1.5% for this size loan. The design intentionally calls for borrowing larger-than-needed premiums each year to assist in building cash value at an accelerated, compounding rate. In addition, the rapid-growth cash value is designed to capture between 80-85% of equity market returns without participating in the risk of market downturns. As the cash value grows, the death benefit increases accordingly.

The loan terms allow all principal and interest to accrue so that the Williams' will not have to make annual payments if they do not choose to. However, they are also free to pay any amount towards the loan balance anytime they desire. In their design the Williams' have chosen to pay nothing out-of-pocket. This allows all of their income and investments to remain undisturbed.

When there is enough cash value in the policy, normally at or near the 20-year mark, a portion will be used to fully retire the bank loan. The remaining excess cash value left over will allow coverage to continue to the insured's age 100 and beyond. In the Willams' case, the "loan exit" is due to occur after year 19 and Mrs. Williams' death benefit is projected to have increased to over $23 Million. If she survives to age 90, her death benefit is projected to be $25 Million. If she lives to age 100, her projected death benefit is over $45 Million.

In summary: the CFS solution offers the Williams' estate the opportunity to keep no less than $21 million of new life insurance coverage in force. By saving the cost of insurance premiums and gift taxes to age 100, the Williams' could save up to $20 million, plus have the needed life insurance in place to save $21 million more in estate taxes.