

Insurance Needs for Multigenerational Families

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- Principal agent at Stern Slavutin – 2, Inc.
 - Provides insurance and financial planning services for families, business owners and professional service firms
- Over 30 years experience in the life insurance business
 - Certified Life Insurance Agent and Chartered Life Underwriter
- Specialties include: life insurance portfolio review, split dollar, and life insurance/risk planning for high net worth families and business owners
- Medical qualifications support his specialty of serving high net worth individuals seeking substantial life insurance policies

INSURANCE NEEDS FOR MULTIGENERATIONAL FAMILIES

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CAVEAT:

This presentation is intended to provide guidance to financial planners on life insurance planning and products. It is not intended to provide tax, legal, or investment advice. Clients should consult their accountant, lawyer and investment advisor for such advice.



1 – TERM CONVERSION

- Convert term insurance for 65 year old male
 - Has developed some health problems since purchasing insurance at 51
- Client was able to exercise conversion option for term insurance
- Checklist for term conversion
 - Option to convert for duration of policy
 - Option to convert to any other kind of insurance
 - Option for partial conversion

2- PRODUCT CHOICES FOR A FAMILY OWNING SIGNIFICANT AMOUNTS OF REAL ESTATE

- Couple with children. Wife's family owns real estate and her value is \$100M +
- Want to purchase insurance to cover cost of future estate taxes
- Look for flexibility if family situation may change
 - Estate tax law could change or be abolished
 - Family could sell off real estate reducing estate tax liability
- Consider diversifying insurance to offer liquidity and flexibility

3- UTILIZING OLDER ANNUITY AND INSURANCE PRODUCTS WITH HIGHER INTEREST RATES

- Older, forgotten or under-utilized products may offer higher interest rates, but are still safe investments
- Annuities
- Life insurance
 - Monies deposited over the cost of the insurance would grow with interest without being taxed

4- IMPACT OF FINANCIAL WEAKNESS OF A LIFE INSURANCE COMPANY ON THE COST OF INSURANCE

- Payment of death benefits not the most important reason to purchase from a stable insurance company
 - Companies typically pay death benefit claims
- Current policy owners bear the burden
 - Weak companies look to retain capital, and thereby ratings
 - Often they will raise policy premiums for current policy owners

5- BENEFICIARY DESIGNATIONS

- Beneficiary Designations in the event of divorce
 - Revocation on divorce laws in certain states
 - ERISA- state vs. federal laws
 - *Egelhoff v. Egelhoff*

6- MODIFIED ENDOWMENT CONTRACTS (MECS)

- MECs are life insurance policies paid with a large lump sum payment
- Special treatment for MECs with respect to loans
 - Loans treated as taxable distributions
- If additional premiums become due on an MEC, do not allow an Automatic Premium Loan (APL) to take effect
 - Again, treated as taxable distribution

7- KEY MAN LIFE INSURANCE

- Family owned business owns Key Man insurance on father's life
 - Another family entity with a 20% outside owner wants the insurance policy
- Transfer for Value risk between the two entities if the insured is not a direct shareholder of the new company
- Provide notice and obtain consent for any insured under a Key Man policy
 - Wal-Mart lawsuits

8- SELLING A POLICY FROM ONE TRUST TO ANOTHER

- A husband and wife requested a Private Letter Ruling on the transfer of their second to die policy
- Main options decanting or a fair market value sale
- Possibility of trigger Transfer for Value on a second to die policy if it is transferred to a trust where only one of the spouses is grantor
- This can be avoided if the spouses are business partners in any other entity

9 – VALUATION OF LIFE INSURANCE FOR GIFT TAX PURPOSES

- Male, age 55, needs to value \$8M life insurance policy for gift tax return
- Multiple options for valuing a policy
 - Cash Value
 - Cash Surrender Value
 - Interpolated Terminal Reserve Value
 - PERC Value
- Other policies such as term insurance have more straightforward valuation
- Select a valuation that will not incur IRS scrutiny

10- INSURANCE AS PART OF A SPLIT DOLLAR AGREEMENT

- Female, age 86, \$4M of life insurance as part of a split dollar agreement
- Changes in client's situation may reduce premiums
 - Client has quit smoking
 - Client's husband passed away
- After age 85, different calculations are used for a split dollar agreement which no longer make it a viable option
- Modify the agreement to a loan arrangement

11 – PRIVATE PLACEMENT VARIABLE LIFE (PPVL)

- Husband and wife, both 51. Net worth \$100M+. Assets in GRATs for children.
- PPVL can shield GRAT asset earnings from current income taxation
- Basic value proposition
 - Assume gross investment earnings 7%
 - Assume 50% federal and state income tax
 - Tax cost = 3.5%
 - PPVL cost = 1% or less
- How is PPVL different from VL
 - Higher premiums
 - Lower commissions
 - More investment choices



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