

# Seeking Flexibility in Estate Planning

Through Premium Financing

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# The History of Estate Taxes

## Estate Tax Exemptions and Rates

<u>Year</u>	<u>Estate Tax Exemption</u>	<u>Top Estate Tax Rate</u>
▶ 1997	\$600,000	55%
▶ 2000	\$675,000	55%
▶ 2003	\$1,000,000	49%
▶ 2006	\$2,000,000	46%
▶ 2009	\$3,500,000	45%
▶ 2010	<b>\$5,000,000 or \$0</b>	<b>35% or 0%</b>
▶ 2013	\$5,250,000	40%
▶ 2016	\$5,450,000	40%
▶ 2019	\$11,400,000	40%
▶ 2020	\$11,580,000	40%

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# Do Estate Taxes Still Exist?

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# YES: The Tax Cuts and Jobs Act - 2017 Made This The Current Law...

- ▶ The Exemption Amount is increased to \$11.58 Million
  - ▶ In longhand.....That's **\$11,580,000**
- ▶ For a married couple it is 2X this amount OR \$23.16 Million
- ▶ The Excess Estate over that amount is subject to a 40% Rate
  - ▶ Best Part:
    - ▶ When Assets are passed through the estate to the Beneficiary(ies) they receive a
    - ▶ STEPPED-UP Basis equal to their fair market value
    - ▶ If the beneficiaries sold it the next day for that price, there would be NO GAIN

# Worst Part: The Tax Cuts and Jobs Act - 2017 is NOT Forever

- ▶ The provisions of this tax law are set to expire after 2025.
- ▶ This means that it is possible that the exemption amount will plummet to its old levels at that time.
- ▶ Rates can change as well.
- ▶ That's only 5 years from now!

# Have You Met These People?



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# Questions You Need to Ask Yourself...

- ▶ What would be the impact to my family if Exemptions become lower and Estate Tax Rates become higher?
- ▶ What's your life expectancy?
  - ▶ More Risk if you are Young.
  - ▶ Less Risk if you are Old.
  - ▶ You still need to be aware of this risk.
- ▶ What estate planning have you done so far?
- ▶ How much flexibility do you have in your estate planning?



# Three Major Tax Advantages of Life Insurance

- ▶ Tax-deferred cash value accumulations [7702(g)]
- ▶ Favorable cash value withdrawal privilege (FIFO) [72]
- ▶ Income tax-free death benefit [101(a)]

# WHY DO PEOPLE BORROW MONEY?



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# WHY BORROW MONEY TO PAY LIFE INSURANCE PREMIUM?



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# WHAT IS PREMIUM FINANCE?



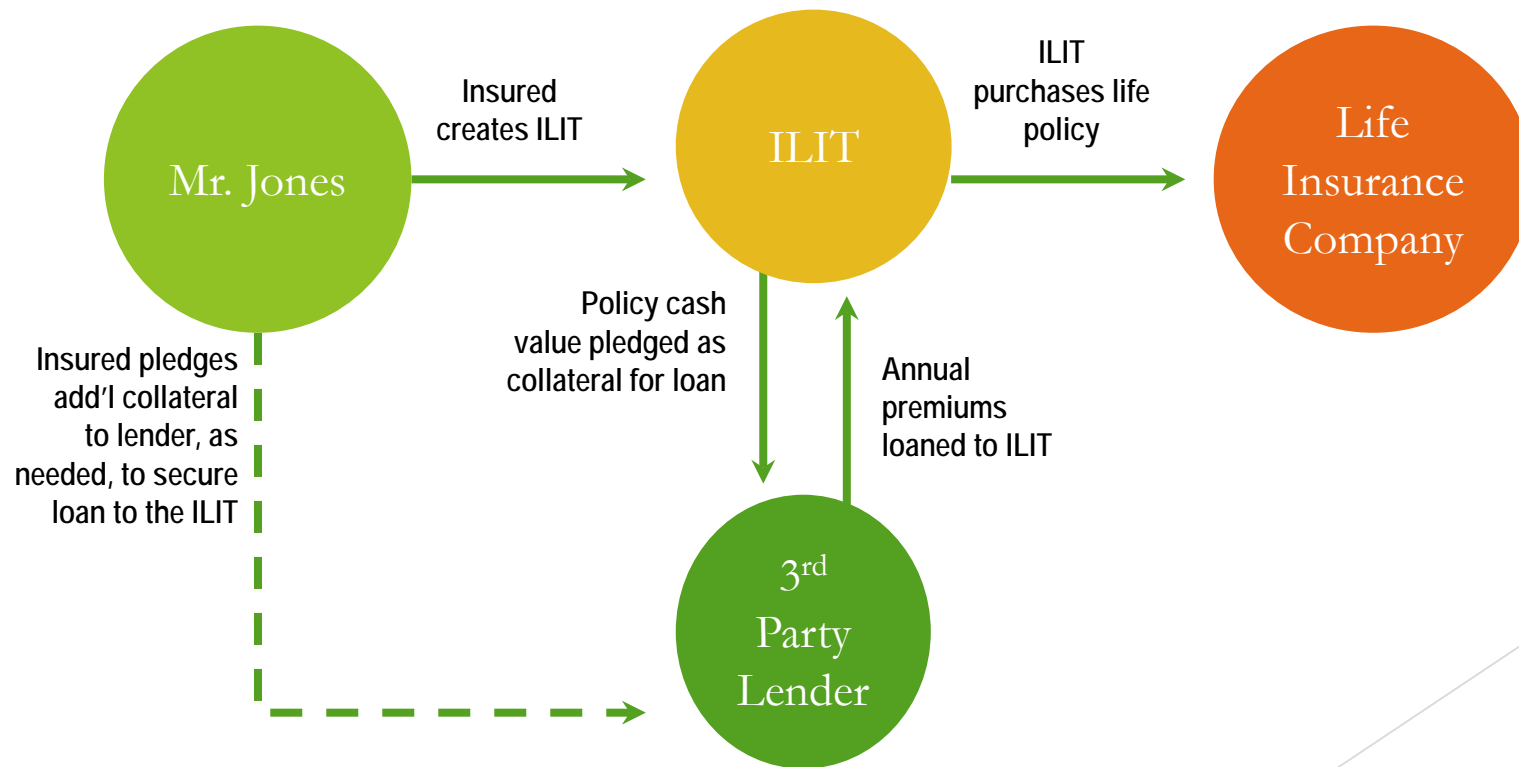
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# WHAT PREMIUM FINANCE IS NOT



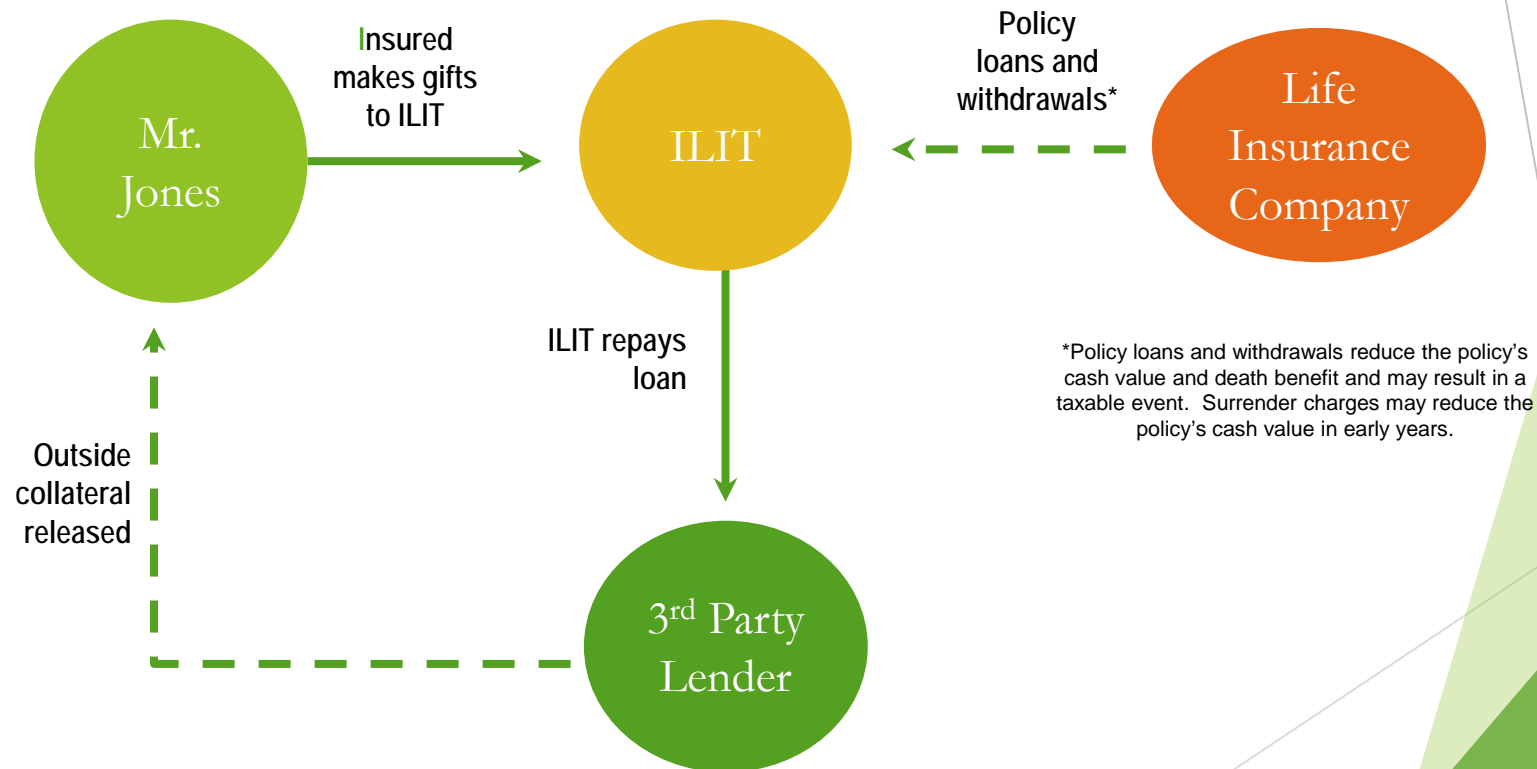
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# DURING MR. JONES' LIFETIME



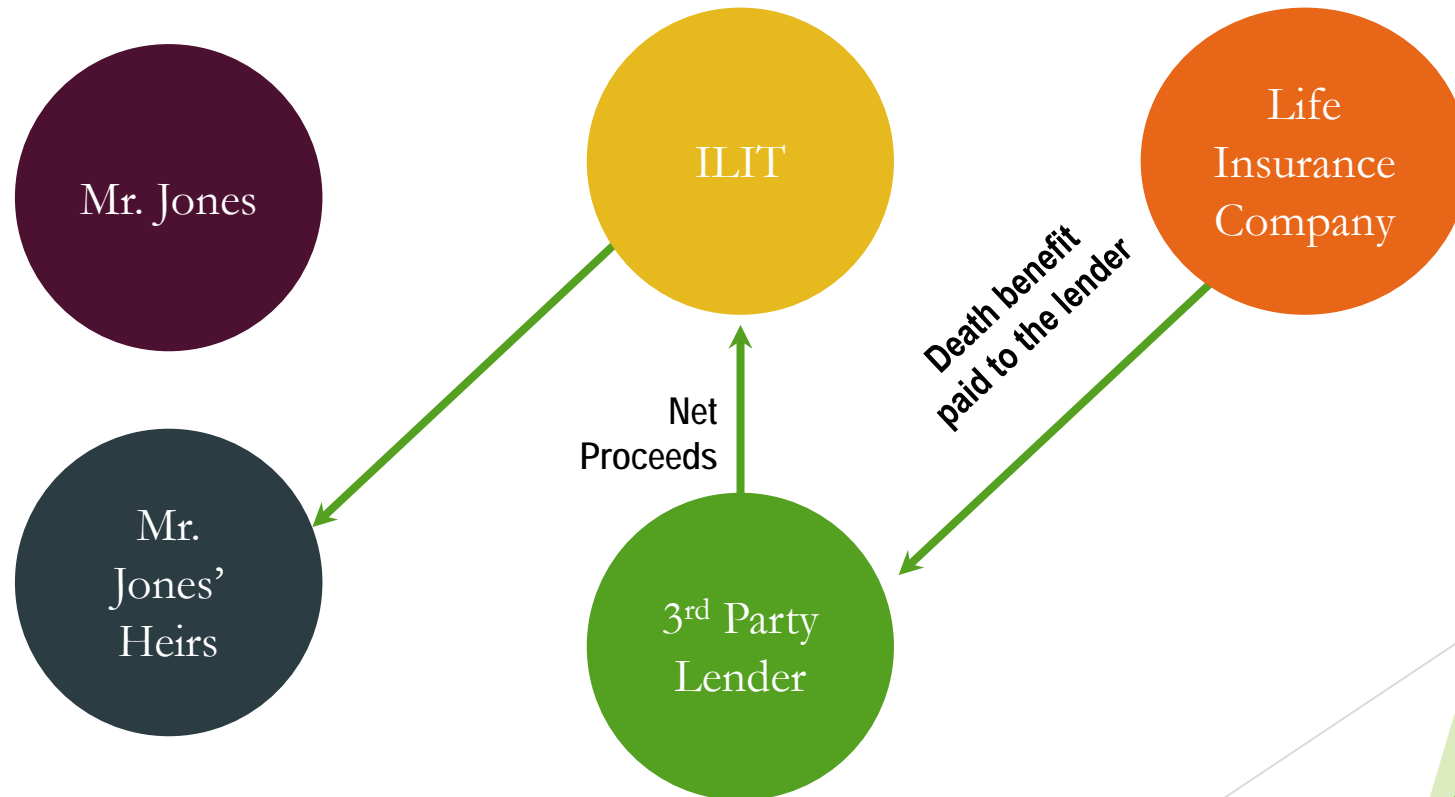
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# LIFETIME LOAN REPAYMENT



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# AT MR. JONES' DEATH



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# Case Studies

1. Family Business Succession Planning
2. Legacy Upgrade
3. Generational Planning

# CASE STUDY 1



- Male, age 61
- Female, age 60
- Business owners
- Wants approximately \$10,000,000 of Death Benefit
- Pay Partial Interest Each Year

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# Premium Financing

## Case Study: Family Business



- ▶ Value of the business: \$10,000,0000
- ▶ Current Estate Plan: \$3,000,000 SIUL
- ▶ Annual **Premium**: \$35,000
- ▶ Number of Heirs: 3
  - ▶ Daughter, Age 33
  - ▶ Daughter, Age 30
  - ▶ Son, Age 28 (Actively involved in business)

# Premium Financing Case Study: Family Business



- ▶ Proposed Plan: Established \$10,000,000 value of business for transfer to heirs
- ▶ Annual **Outlay**: \$35,000
- ▶ Number of Heirs: 3
  - ▶ Daughter, Age 33 - \$4,000,000
  - ▶ Daughter, Age 30 - \$4,000,000
  - ▶ Son, Age 28 (Actively involved in business) - \$2,000,000 **plus** 100% owner of business

# Premium Financing Case Study: Family Business



- ▶ Benefits: freezes the value of the business
  - ▶ Two daughters inherit proportional share of the business at \$4,000,000 for each
  - ▶ Son inherits \$2,000,000 plus 100% of the business (motivated to grow the value of the business)
  - ▶ Death benefit proceeds are distributed 40/40/20
  - ▶ Year 30 projected DB: \$18,000,000

# Premium Financing Case Study: Family Business



- ▶ **Current Annual Premium: \$35,000**
  - ▶ **Total DB: \$3,000,000**
  - ▶ Annual premiums payable to age 100
- ▶ **Premium Financing Outlay: \$35,000**
  - ▶ **Total DB: \$10,000,000**
  - ▶ Annual outlay payable for 12 years

# Premium Financing Case Study: Family Business



## Life Insurance Premium Financing

Loan interest is not deductible. This illustration does not make any assumptions regarding income, gift, or estate tax. Please consult your tax advisor.

For:		Policy	LifeCycle Solutions
Age:	62 / 60	Initial Face Amount	10,500,000
Class:	Preferred Non-Smokers	Insurer:	National Life Group
Assumes Current Cost of Insurance Charges and Current Coverage Charges		Index Crediting:	6.38%

Premium Financed Life Insurance Policy												
Age	Year	Cumulative Lender Loan	Annual Financed Premium	Annual Loan Interest Rate	Annual Interest Due	Interest Paid By Client	Interest Capitalized	Policy Cash Surrender Value	Cash Surrender Value Net of Loan	Collateral Required	Death Benefit	Death Benefit Net of Loan
		1	2	3	4	5	6	7	8	9	10	11
60	1	-	571,933	4.07%	23,278	(35,000)	-	297,237	-	(262,974)	11,004,327	10,444,116
61	2	560,211	571,933	4.07%	46,078	(35,000)	11,078	850,065	-	(293,157)	11,538,565	10,395,343
62	3	1,143,222	571,933	4.07%	69,807	(35,000)	34,807	1,434,740	-	(315,222)	12,104,260	10,354,298
63	4	1,749,962	571,933	4.07%	94,501	(35,000)	59,501	2,055,802	-	(325,594)	12,705,887	10,324,491
64	5	2,381,396	571,933	4.07%	120,200	(35,000)	85,200	2,715,414	-	(323,115)	13,345,674	10,307,145
65	6	3,038,529	571,933	4.07%	146,946	(35,000)	111,946	3,482,844	-	(239,564)	14,092,694	10,370,286
66	7	3,722,408	571,933	4.17%	179,074	(35,000)	144,074	4,297,887	-	(140,528)	14,886,937	10,448,522
67	8	4,438,415	571,933	4.25%	212,940	(35,000)	177,940	5,163,625	-	(24,663)	15,731,290	10,543,002
68	9	5,188,288	571,933	4.35%	250,570	(35,000)	215,570	6,083,110	107,319	-	16,628,805	10,653,014
69	10	5,975,791	571,933	4.44%	290,719	(35,000)	255,719	7,059,442	255,999	-	17,582,647	10,779,204
70	11	6,803,443	571,933	4.48%	330,417	(35,000)	295,417	8,124,121	453,329	-	18,624,121	10,953,329
71	12	7,670,792	571,933	4.48%	369,274	(35,000)	334,274	9,234,522	657,523	-	19,734,522	11,157,523
72	13	8,576,999	-	4.50%	385,965	-	385,965	9,843,897	880,933	-	20,343,897	11,380,933
73	14	8,962,964	-	4.53%	406,022	-	406,022	10,491,418	1,122,431	-	20,991,418	11,622,431
74	15	9,368,987	-	4.55%	426,289	-	426,289	11,178,711	1,383,435	-	21,678,711	11,883,435
75	16	9,795,276	-	4.55%	445,685	-	445,685	11,907,537	1,666,576	-	22,407,537	12,166,576
76	17	10,240,961	-	4.55%	465,964	-	465,964	12,679,471	1,972,547	-	23,179,471	12,472,547
77	18	10,706,924	-	4.55%	487,165	-	487,165	13,496,438	2,302,349	-	23,996,438	12,802,349
78	19	11,194,089	-	4.55%	509,331	-	509,331	14,359,014	2,655,594	-	24,859,014	13,155,594
79	20	11,703,420	-	4.55%	532,506	-	532,506	15,267,586	3,031,660	-	25,767,586	13,531,660
80	21	12,235,926	-	4.55%	556,735	-	556,735	16,227,280	3,434,619	-	26,727,280	13,934,619
81	22	12,792,661	-	4.55%	582,066	-	582,066	17,233,484	3,858,757	-	27,733,484	14,358,757
82	23	13,374,727	-	4.55%	608,550	-	608,550	18,286,089	4,302,812	-	28,786,089	14,802,812
83	24	13,983,277	-	4.55%	636,239	-	636,239	19,383,754	4,764,238	-	29,883,754	15,264,238
84	25	14,619,516	-	4.55%	665,188	-	665,188	20,519,916	5,235,212	-	31,019,916	15,735,212
85	26	15,284,704	-	4.55%	695,454	-	695,454	21,666,589	5,686,431	-	32,166,589	16,186,431
86	27	15,980,158	-	4.55%	727,097	-	727,097	22,831,050	6,123,795	-	33,331,050	16,623,795
87	28	16,707,255	-	4.55%	760,180	-	760,180	24,004,162	6,536,727	-	34,504,162	17,036,727
88	29	17,467,435	-	4.55%	794,768	-	794,768	25,175,799	6,913,595	-	35,675,799	17,413,595
89	30	18,262,204	-	4.55%	830,930	-	830,930	26,331,621	7,238,487	-	36,831,621	17,738,487
90	31	19,093,134	-	4.55%	868,738	-	868,738	27,462,031	7,500,160	-	37,962,031	18,000,160



# CASE STUDY 2



- Male, age 63
- Female, age 62
- Wants to increase Death Benefit
- Pay Partial Interest Each Year



# Premium Financing Case Study: Legacy Upgrade



- ▶ **Current Death Benefit:**  
\$2,000,000
- ▶ **Current Cash Value:** \$130,000
- ▶ **Current Annual Premium:** \$12,000
- ▶ **Proposed Death Benefit (with premium financing):** \$5,000,000
- ▶ **1035 Exchange of \$130,000**
- ▶ **Annual Outlay:** \$15,000

# CASE STUDY 3



- Male, age 72
- Female, age 70
- Business owners
- Wants Premium Financing for Second Generation
- Pay No Interest Each Year

## Premium Financing

# Case Study: Generational Planning



- ▶ Number of Heirs: 2
  - ▶ Daughter, Age 44 (Actively involved in business)
  - ▶ Son, Age 40 (Actively involved in business)
- ▶ Existing Estate Plan: Trust Owned Life Insurance
- ▶ Trust DB: \$23,000,000
- ▶ Trust Cash Value: \$6,000,000

## Premium Financing

# Case Study: Generational Planning



- ▶ Step 1
  - ▶ Create sub-trust for son and daughter
  
- ▶ Step 2
  - ▶ Use existing cash value in master trust (\$6,000,000) for collateral to fund the sub-trust
  
- ▶ Step 3
  - ▶ Daughter and son each qualify for a \$15,000,000 IUL policy

## Premium Financing

# Case Study: Generational Planning



- ▶ Annual Outlay: \$0
- ▶ Projected Tax-Free Income: \$515,000
- ▶ Total Income (Age 60-90): \$15,000,000
- ▶ DB Age 90: \$35,000,000
- ▶ Total Value: \$50,000,000
- ▶ Projected Peak Collateral (Year 6): \$650,000
- ▶ Projected Collateral (Year 12): \$0

# Premium Financing Case Study: Generational Planning



# What Did We Learn?

- ▶ Unless you die this year, estate taxes will change and are going to be different when you do pass on.
- ▶ Premium Financing is a way for you to build in flexibility to your estate planning if needed down the road.
  - ▶ Use Policy Death Benefit if Estate and other Taxes are owed.
  - ▶ Turn on Tax-Free cash distributions through policy loans to provide income to self or heirs.
- ▶ Don't forget about income taxes on some of the assets in your estate (IRAs, 401(k)s, Pensions, Profit Sharing Plans, etc.)

Questions....

