



# CAPITAS<sup>®</sup> FINANCIAL

## LIFE INSURANCE CASE STUDIES

### **Private Wealth Insurance Planning:** YOUR CLIENTS, YOUR BUSINESS, OUR SUPPORT

This material outlines some reasons you may want to consider life insurance planning within your private wealth business. Your clients look to you for advice and guidance with their financial lives, therefore a broader base of planning services can allow you and your team the ability to offer additional, expanded services and products to support your key clients.

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This publication is designed to provide general information about ideas and strategies. It is for discussion purposes only since the availability and effectiveness of any strategy are dependent upon your client's individual facts and circumstances. Clients should always consult with their independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
Are Not Deposits	Are Not Insured by Any Federal Government Agency	Are Not a Condition to Any Banking Service or Activity

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### **Business Outline:** YOUR CLIENTS, YOUR BUSINESS, OUR SUPPORT

You and your team are successful in advising and guiding your client's financial lives, helping to potentially grow and protect their family wealth.

A broader base of planning knowledge and awareness can help you and your team to expand your services helping protect and retain loyal clients and connect yourself to future generations.

We recently had a client situation with one of our Private Bank relationships. They asked us to review a life insurance statement from their client worth over \$70M after discussing a life insurance policy that an outside insurance policy agency had sold them in January of 2022.

Upon review, we found that their clients, who were in their 40's, were paying premiums in excess of \$500K annually for coverage in excess of \$10M, premium financed with assumed interest rates in the 2% plus range. It was also felt the clients did not completely understand what they purchased. This was a long-term client who purchased life insurance from someone else. Upon review, we found the coverage would lapse at age 87 and only guaranteed to age 60. All it takes is a simple ask, the clients did not know the Private Bank had access to these services. In addition, the firm's suitability review protocols would have prevented this policy from ever being sold.

You simply open the conversation with your clients; Ask, Listen, Recommend.

**Ask** - "tell me about your estate/business/insurance planning goals."

**Listen** - "they will provide a brief overview."

**Recommend** - "your plans should be reviewed and evaluated on a regular basis; we have access to a strategic partner who can complete an evaluation and present their findings and recommendations to confirm existing plans align with your goals or provide possible options for improvement."

Capitas can provide professional, unbiased, planning solutions, to help support your business, and while striving to help your clients achieve their legacy planning goals.

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### Who is Capitas Financial?

- As one of the largest independent distributors of Life Insurance, supporting clients, advisors and institutions since 2001, we pride ourselves on local support with family office planning capabilities. Capitas has over 100 local field consultants nationwide to serve as your strategic insurance partner.
- We are independent business owners not owned by an institution. With 2,022 life insurance premiums over \$400M, with over 400,000 inforce life insurance policies, and over \$70B of inforce life insurance coverage we understand business owners and what it takes to build wealth.\* Our local Insurance Consultants are supported by internal teams of subject matter experts focused on advanced tax and estate planning services, executive benefits, in house underwriting, long term care, disability, among others.

We have access to all the insurance carriers on your platform to bring you the “best-in-class” products to help support your client’s needs. Our goal is to collaborate with you on your client’s insurance planning needs.

\*Source: [ltcglobal.com](http://ltcglobal.com), 2022

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## LIFE INSURANCE CASE STUDIES

### Estate Planning Services: Case Study #1

#### HYPOTHETICAL CLIENT STORY:

The Private Client Advisor opened discussions with one of her clients regarding their estate planning, knowing their desire to protect and preserve their family wealth for their children and grandchildren. They were older, conservative investors, living a modest lifestyle spending only a portion of their annual income from their investment account valued at \$180,000,000. They had been introduced to an Estate Planning Attorney who drafted all the correct planning documents. As a result of the discussion, the clients learned that their family wealth was likely to face a “substantial” estate tax upon their passing; estimated to be \$50,000,000 or more after accounting for deductions and gifts.

The advisor contacted their Capitas Financial Insurance Consultant to work and partner with the Private Bank in the estate and life insurance planning discussions. The planning focused on the Internal Rate of Return projections of using a portion of their lifetime exemption for gifting into a trust to utilize insurance or other investment alternatives. Based on the age of the applicants in their 70’s the use of a joint survivorship insurance policy allowed for a greater leverage of gifted dollars not subject to market volatility guaranteed from day one.

The clients were pleased with the proposal and decided to move forward with the addition of the life insurance coverage. The new life insurance trust owned the \$50,000,000 of life insurance coverage, funded with a single gift of \$12,700,000. They were pleased with the advice and guidance from their advisor, trustee, and attorney. The Bank became the Trustee on the insurance Irrevocable Life Insurance Trust (ILIT).

*This case study summarizes a specific transaction and may not be appropriate for all investors. Solutions presented are not appropriate for everyone. Results will vary, and no suggestion is made about how any specific solution or strategy performed in reality.*

*Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws. Failure to do so could result in adverse treatment of trust proceeds.*

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### Business Planning: Case Study #2

Businesses with multiple owners typically have a stock redemption agreement in place providing financial stability for the business, its owners, and their families. Funding the stock redemption typically involves lending from their business bank, setting aside Capital or incorporating insurance on the lives of the owners.

Bank lending provides the required funds, at a financial cost of 100%, with the loan repayment plus, the cost of money/interest, increasing the bank funding cost above 100%.

The consideration of insurance providing the funding for the stock redemption offers guaranteed, tax-free funds at a substantial cost savings. The annual premium costs average is 2.0% - 3.0% of the insurance benefit providing the required funds at a substantial cost savings.

#### HYPOTHETICAL CLIENT STORY:

Gary and Mark each owned 50% of a profitable and successful business. Mark provided the manufacturing expertise and financial backing while Gary ran the business as the corporate president. Their original "stock redemption agreement" was in place but needed up-dating. Their corporate attorney redrafted the document and suggested they investigate life insurance as a funding option as the agreement required the purchase of the deceased partner's stock holdings, 90 days after death.

They knew their business bank was an option for raising cash when required but also wanted to consider insurance as a funding option for the \$12,000,000 stock value for each partner. Gary and Mark were each age 70 with similar annual premium amounts of \$345,000. The comparison between the funding options favored adding insurance to their business planning, providing the required funds on a favorable tax basis at a considerable cost savings. The annual insurance cost was less than the annual interest cost for the bank loan with the insurance providing the funds while the bank loan required repayment. They had no desire or capability to set aside non-working capital for the redemption agreement.

#### **BANK FUNDING**

Loan - \$12,000,000

Interest at 4% - \$480,000 x 5 yrs. - \$2,400,000

Total Cost - \$12,000,000 + interest cost

#### **INSURANCE FUNDING**

Insurance - \$12,000,000

Premium - \$345,000 x 15 yrs.

Total Cost - \$5,175,000

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### Life Insurance Evaluation: Case Study #3

Life insurance is a financial asset and should be managed and reviewed on a regular basis; confirming it is performing as expected and the planning still meets the clients' goals and objectives based on family dynamic changes, ownership, etc. Insurance Evaluations often shows coverage ending/lapsing before the client's life expectancy; due to less than expected investment performance, missed premium payments, or increased cost. Recent reductions in cost of insurance charges as well as the current generation of investment grade insurance products can provide improved benefits at lower premium costs. All that is needed to start a life insurance evaluation is to obtain the clients latest insurance statement and send to your Capitas Insurance Consultant. We will perform an evaluation of current coverage as well as compare to all the available options based on any family changes or client needs.

#### HYPOTHETICAL CLIENT STORY:

Robert and Michelle in their mid-60[s] were managing their manufacturing company, and accumulated a significant estate, valued at \$39,000,000; with two children and two grandchildren listed as their family heirs. Their estate planning was in order including the purchase of \$10,000,000 of life insurance coverage to provide funding for their anticipated estate tax liability. Their financial advisor asked about any inforce insurance coverage and recommended an evaluation of the insurance.

The Evaluation Report from Capitas showed the original insurance company had sold its portfolio to a Private Equity Group and as the clients were not paying premiums the coverage would only remain in place till age 88, lapsing at age 89. The evaluation showed new annual premium requirements of \$74,681 to maintain the coverage to age 100. The Capitas report also compared the old coverage to the new generation of insurance products. Exchanging the old policy, for a new generation contract only required annual premiums of \$36,995 to maintain the coverage to age 100+. The exchange offered the same \$10,000,000 of insurance coverage, improved guarantees, coverage past age 100, at a 49% cost savings.

#### CURRENT INSURANCE

Insurance - \$10,000,000  
Equity - \$1,471,000  
Premium - \$74,681  
Coverage - Age 100

#### NEW INSURANCE

Insurance – \$10,000,000  
Equity / Rollover - \$1,471,000  
Premium - \$36,995  
Coverage - Age 100+

*Hypothetical example shown for illustrative purposes only. This case study summarizes a specific transaction and may not be appropriate for all investors. Solutions presented are not appropriate for everyone. Results will vary, and no suggestion is made about how any specific solution or strategy performed in reality.*

*When conducting an insurance policy review and presenting options that include replacing an existing insurance contract, it is important to discuss the risks and benefits. Clients should carefully consider the risks and benefits before taking action, including their current need for coverage, their current health status and insurability, fees and charges associated with terminating an existing contract, and future liquidity needs.*

*All guarantees and benefits of an insurance policy are backed by the claims-paying ability of the issuing insurance company. Policy guarantees and benefits are not backed by the broker/dealer and/or insurance agency selling the policy, or by any of their affiliates, and none of them makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.*

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