

CRESCENT PRIVATE CLIENT GROUP

# LIFE PLAYBOOK





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# COMPREHENSIVE ANALYSIS AND REVIEW | CAR

Bring clarity and understanding to client's in-force policies while comparing them against insurance offerings available today

## CONCEPT DESCRIPTION

Life insurance may be one of the largest assets within an estate and is generally not evaluated, reviewed, or appraised. The Comprehensive Analysis and Review (CAR) program through FIG provides financial professionals with a process to conduct a comprehensive insurance policy review efficiently and effectively.

The CAR program looks at all aspects of a client's insurance portfolio to:

1. Uncover how the current policy has performed to date.
2. Learn how it's projected to perform moving forward.
3. Understand underwriting and the overall goal of the insurance portfolio.
4. Consider what products today may be more efficient in reaching goals.

CAR can enhance your relationship with your clients by doing what many other financial professionals won't or can't do—educate them on their current insurance portfolio performance and analyze the best course of action moving forward

## CLIENT PROFILE

Any age client who owns life insurance but is unsure if their insurance portfolio will meet their current goal. May have had a recent business change event, after recent life event, or change in health (positively or negatively).

## Key Selling Points

- Ability to educate and help clients understand what they currently own and how it's projected to perform moving forward
- Ability to compare the current insurance policy to the marketplace today to determine if options exist that may meet the current goals more efficiently
- Ability to use the FIG CAR process to obtain detailed information and in-force illustrations needed to conduct a review
- Ability to deepen your relationship with your clients by adding value and truly being able to advise them on how best to manage their insurance portfolio in alignment with the rest of their financial plan
- Ability to market yourself to centers of influence as a financial professional who can assist their clients with the process in an unbiased manner



## CASE STUDY

Tom is a new client with several whole life policies he's purchased from his previous agent periodically over the last 20 years. He's been paying premiums on most of them but said that he doesn't know if they're any good and if he should keep them.

A CAR policy review was recommended, and after FIG gathered all the in-force data, Tom had \$1,225,000 death benefit in place, and was paying \$21,000 per year in premiums. The current cash value was just over \$350,000, and it was determined that at the current dividend rate, Tom could stop paying premiums on all but one of his policies if he so chooses, and they'd project to carry on to maturity.

It was also determined that he could opt to roll over the current policies into a new index universal life (IUL) policy that, with no future premium outlay, would project a higher death benefit, higher projected access to tax-free income in retirement, and have access to his money for long-term care costs should he need it. Once Tom fully understood what he currently owned, he chose to replace the coverage with a new policy that was more efficient in meeting his objectives.

## CLIENT COMMENTS TO WATCH FOR

*"I bought this policy so long ago that I don't even remember what it is."*

*"I'm not sure how this policy has performed and what my statements even show me."*

*"When I bought my life insurance, it was for income protection, but now that I'm close to retirement and the kids are out of the house, what do I do with this policy?"*

*"I already have life insurance. I think we're good on that front."*

## RIGHT QUESTIONS TO ASK

*"Do you have any in-force life insurance policies, and are you interested in seeing how these policies have performed since you bought them?"*

*"Do you fully understand all the moving parts of your life insurance portfolio?"*

*"Would you like to explore how your policy compares to the current life insurance policies available today that may have features or options that were not available to you when you originally bought this policy?"*

*"It looks like your need for life insurance has changed over time. We should analyze if your current insurance portfolio can still meet your needs or if there's a better option available in the marketplace today."*



# ASSET “LOCATION” WITHIN A PORTFOLIO

## Take control of your taxes in retirement

### CONCEPT DESCRIPTION

Everyone’s heard of “Asset Allocation,” which is the risk management of a portfolio and how it’s invested across different types of investments (stocks, bonds, ETFs, REITs). “Asset Location” is about the tax management and the tax location of the assets within a portfolio.

Assets can be broken down into three tax buckets:

1. **Taxable Account** – After-tax dollars in, taxed as you go when rebalancing, asset sale, distributions
  - a. Examples – Brokerage Account, SMA, Savings Account
2. **Tax-Deferred Account** – Pre-tax dollars in, tax-deferred growth, 100% ordinary income tax distributions
  - a. Examples – 401(k), 403(b), IRA
3. **Tax-Free Account** – After-tax dollars in, tax-deferred growth, tax-free distributions
  - a. Examples – Roth IRA, Roth 401(k), Cash Value Life Insurance

It’s equally important to know how much money you need for retirement and how much of that money you can keep. When you take distributions from a portfolio, the assets/accounts are taxed differently.

Pulling income from different types of accounts can be very advantageous by increasing the after-tax income that’s kept, controlling tax brackets, and maximizing social security income. Properly structured cash value life insurance is a unique asset that fits into the tax-free bucket and has no contribution or income limits like most Roth accounts.

### CLIENT PROFILE

- Age 25 to 55, needs life insurance, and seeks additional income in retirement, even if it’s 15+ years away.
- May have met contribution limits for other plans, be risk-averse, seeks a tax-advantaged solution, or is concerned about future tax rates and market exposure.

### Key Selling Points

- Death benefit protection can offer financial stability during working years
- Cash value grows tax-deferred
- Income can be taken income-tax-free via withdrawals to basis and/or policy loans if structured properly
- Can lower client’s effective tax rate/bracket as distributions aren’t treated as taxable income allowing the potential to keep more of your Social Security income
- Can provide an income source in retirement for years when it’s not an optimal time to sell other asset types like stocks or bonds
- Long-Term Care/Chronic Illness riders/Accelerated death benefits, can provide access to a pool of money if the insured develops a qualifying illness



### CASE STUDY

Julie, a 40-year-old healthy female, is looking for additional tax-effective strategies to put money away for retirement income but has maxed out her 401(k) and Roth IRA contributions. She currently has \$250,000 in her 401(k) (contributing \$10,000/year along with a \$5,000 match from her employer) and a brokerage account with a \$100,000 balance (contributing \$20,000/year). Based on this path and assuming she retires at age 65 and earns a 6% gross return, her projected after-tax income is \$119,000/year.

Life insurance has no contribution limits and can provide unique tax advantages if the policy’s designed as a Non-MEC. Julie decides to keep her current 401(k) but switches future contributions and employer match into a Roth 401(k). She also chooses to keep her current \$100,000 brokerage account but switches all future \$20,000/year contributions into an Index UL life insurance policy designed for the option of tax-free distributions. At the same growth assumptions, Julie’s after-tax income in retirement is now projected to be \$149,000/year, an increase of 25% driven by changing the asset locations.

The death benefit on the life insurance policy will also provide a tax-free amount to heirs beyond the cash value in the policy and protection for her family during her working years.

### CLIENT COMMENTS TO WATCH FOR

*“I want to save more for retirement, but I’ve maxed out the contribution limits in my Roth IRA.”*

*“I’m worried tax rates will go up, and I wish there was a way to receive income without increasing my tax bracket.”*

*“I don’t want all my retirement income subject to market risk and taxes.”*

*“It’s been nice to see some of my accounts growing tax-deferred, but I’m really worried about how much in taxes will be taken when I need to use that money.”*

### RIGHT QUESTIONS TO ASK

*“Do you think income tax rates will go down or up?”*

*“Would you like to discuss how your current accounts will be treated in retirement when/if you take income from them?”*

*“What if you could relocate some of your assets to provide tax-free income and flexibility to help you time your other distributions to minimize exposure to taxes?”*

*“Would you be interested in a secondary retirement plan that included protection against premature death and long-term care/chronic illness expenses?”*



# LIFE INSURANCE AS PART OF A RETIREMENT PLAN

No contribution limits, tax-free distributions, market risk protection

## CONCEPT DESCRIPTION

The unique features of life insurance make it a strong vehicle for achieving additional income distributions in retirement. When overfunding an index universal life (IUL) policy or a whole life policy, there are no contribution limits, the cash value grows tax-deferred, and income can be taken tax-free.

Additionally, there's protection from market risk, unlike other investments, and living benefit riders along with the actual death benefit can help protect the entire portfolio from the risk of LTC expenses eroding their nest egg.

## CLIENT PROFILE

Age 25-60, needs life insurance and seeks additional income in retirement, even if 15 or more years away. May also have met contribution limits for other plans, be risk-averse, seek a tax-advantaged solution, or be concerned about future tax rates and market exposure.

## Key Selling Points

- Death benefit protection can offer financial stability during working years, plus a potentially tax-free income stream at retirement through loans or withdrawals on policy cash value
- Cash value grows tax-deferred
- Income can be taken income-tax-free via withdraws to basis and/or policy loans
- Can lower client's effective tax rate/bracket as distributions aren't treated as taxable income, and there's potential to keep more Social Security income
- LTC, chronic illness riders, or accelerated death benefits can provide access to the pool of money if the insured develops a qualifying illness
- Overloan protection (OLP) riders can prevent the policy from lapsing later in life and causing a taxable event

## CASE STUDY

45-year-old, healthy male looking for additional tax-effective strategies to put money away for retirement income has maxed out his 401(k) and Roth IRA contributions. Life insurance has no contribution limits and can provide unique tax advantages if the policy's designed as a non-MEC.

He decides to put \$12,000 per year for 20 years into an IUL product with an increasing death benefit option. Desired distributions are expected to start at age 70, and, at the current illustrated rates, an annual income of \$33,293 is projected.



This income equals \$43,807 of annual taxable income, assuming a 24% income tax bracket. The death benefit also provides a tax-free amount to heirs over and above the cash value in the policy. This strategy adds the flexibility to choose when to take income from the policy to avoid selling securities when they are down in value or it can add the ability to maintain a lower overall tax bracket since income from this strategy is not taxed.

## CLIENT COMMENTS TO WATCH FOR

*"I want to save more for retirement, but I've contributed all I can into my Roth IRA/IRA/401(k)."*

*"I'm worried tax rates will go up, and I wish there were a way to receive income without increasing my tax bracket."*

*"I don't want all my retirement income subject to market risk and taxes."*

*"I'm worried about what happens to my nest egg when I die or need long-term care."*

## RIGHT QUESTIONS TO ASK

*"Do you think income-tax rates will go down or up?"*

*"What if you could establish a plan of your own to supplement the retirement planning strategies offered through your employer?"*

*"What if you could implement a secondary retirement strategy that provided flexibility to help you time your distributions to minimize exposure to taxes?"*

*"Would you be interested in a secondary retirement plan that included protection against premature death and long-term-care expenses?"*

# IRA | QUALIFIED PLAN MAXIMIZATION STRATEGY

A powerful way to use unneeded RMDs

## CONCEPT DESCRIPTION

Clients who've accumulated significant wealth may realize they don't need their IRAs or other qualified retirement accounts for income in retirement. The IRA has become an asset your client would like to pass on to their heirs, and while an IRA offers substantial advantages during the owner's lifetime, it's not the best asset to try to pass on to heirs due to income and estate taxes.

IRA max allows the right clients to pass on this unneeded IRA or qualified account to their heirs in a more tax-efficient manner. It could significantly increase the amount that's inherited. This is accomplished by purchasing a life insurance policy and funding it with an after-tax RMD or level distribution they receive, or by rolling over the entire account into a single premium immediate annuity (SPIA) and using that after-tax income generated to fund the life insurance policy.

Depending on the client's net worth or estate planning complexity after net worth projections, this life insurance policy can be held inside or outside their estate (using an ILIT) to assist with their overall estate plan.

## CLIENT PROFILE

Age 60 or over, near or in retirement, and in good to average health. Desires that their qualified plan assets be passed on to their heirs but dislikes how much will be eaten up in taxes. Seeks a tax-advantaged solution and may be concerned about future tax rates and market exposure.

### Key Selling Points

- The potential to significantly increase the after-tax amount that'll pass on to heirs as the life insurance death benefit isn't subject to income taxes
- Have the ability to move these assets outside the estate if desired and protect the life insurance death benefit from estate taxes
- Could consider an individual or a survivorship life insurance policy with this strategy
- LTC, chronic illness riders, or accelerated death benefits can provide access to the pool of money if the insured develops a qualifying illness and if the policy ownership is structured to allow them access to those funds.

## CASE STUDY

Bob is 71 years old and accumulated a large amount of wealth over his lifetime. One of his assets is an IRA with a \$1,000,000 balance. He receives notice that next year he'll need to begin pulling RMDs from this IRA and paying income taxes on that amount distributed. Bob has significant other income and assets, and he doesn't need this income now or in the future during his retirement.



Bob can take this RMD income and reinvest it in his investment portfolio. He can also take equal planned distributions of \$30,000 from his IRA and use the after-tax amount to gift to an ILIT that'll buy a survivorship life insurance policy for him and his wife. The immediate death benefit in the life insurance policy is \$1,300,000, which will pass on free of income and estate taxes to their kids. The remaining balance of the IRA will also pass on to their kids after income and estate taxes are taken.

If Bob had continued to reinvest his RMDs, assuming a 6% growth rate, his IRA remaining balance would be about \$620,000, while his side investment account would be approximately \$1,400,000 by his age 93 (life expectancy). These amounts would be subject to estate and income taxes, leaving just around \$850,000 to their children. However, the \$1,300,000 death benefit plus the balance after taxes of \$260,000 from his IRA leave a greater amount of \$1,560,000 to their children!

## CLIENT COMMENTS TO WATCH FOR

*"We feel we have more than we need for our retirement."*

*"It's painful to see how much of our qualified plans will get eaten up by taxes when we pass away."*

*"I don't need these RMDs we must take every year."*

*"What assets would best fund our estate planning/ILIT?"*

## RIGHT QUESTIONS TO ASK

*"Do you have funds earmarked for passing on to your heirs at your death?"*

*"If you are certain you will not need these funds during your retirement, who would you like to get most of this money when you pass away? The government or your family?"*

*"Would you like to explore how, using those funds, you could multiply the amount of financial legacy you leave for your loved ones?"*

# ANNUITY MAX STRATEGY

A tax-efficient way to pass on an annuity to your heirs

## CONCEPT DESCRIPTION

Clients who have accumulated significant wealth may decide they don't need their annuity for income in retirement. Thus, the annuity becomes an asset your client prefers to pass on to their heirs. Unfortunately, while an annuity offers substantial tax advantages during the owner's lifetime, it's not the best asset to try to pass on to heirs due to income and estate tax exposure.

An annuity-maximization strategy provides an opportunity to pass on this unneeded annuity to heirs tax-efficiently and potentially increases the inherited amount. Accomplish this strategy by purchasing a life insurance policy and funding it with an after-tax level distribution received from the current annuity. Income from the annuity can be generated by converting it to a single premium immediate annuity (SPIA) or by taking withdrawals as permitted from your annuity contract.

Depending on your client's net-worth projections, this life insurance policy can be held inside or outside their estate using an irrevocable life insurance trust (ILIT) to assist with their overall estate plan.

## CLIENT PROFILE

- Age 60+, near or in retirement, and in good/average health
- Desires to pass their annuity to heirs but dislikes how much taxes will take when they pass away
- Seeks a tax-advantaged solution and may be concerned about future tax rates and market exposure
- Has sufficient alternative sources of income in retirement

## Key Selling Points

- Potential to significantly increase the after-tax amount that passes on to heirs
- Ability to move these assets outside of the estate and protect the life insurance death benefit from estate taxes
- Willing to consider an individual or a survivorship life insurance policy
- Long-Term Care/Chronic Illness riders/Accelerated death benefits can provide access to a pool of money if the insured develops a qualifying illness and if the policy ownership is structured to allow them access to those funds.

## CASE STUDY

Joe, who's 65 years old, has accumulated significant wealth across multiple products. His annuity asset boasts a \$500,000 balance. Additionally, Joe has other significant income and assets and doesn't need to tap into this annuity as an income stream now or during his retirement.

Joe can let this annuity grow tax-deferred, or he can convert the annuity to an SPIA and receive after-tax annual distributions of \$33,000. He can then use the after-tax amount to gift to an ILIT to buy a life insurance policy on his life.



The immediate death benefit in the life insurance policy is \$1,250,000, which he'll pass on free of income and estate taxes to his children. If Joe would've continued to let the annuity continue to grow, by his life expectancy (age 92), the annuity would have a projected balance of around \$2,000,000.

That amount would be subject to both estate and income taxes, leaving a reduced amount of about \$650,000 to their children depending on the state tax laws. Clearly, the \$1,250,000 tax-free death benefit leaves a much greater amount to their children.

## CLIENT COMMENTS TO WATCH FOR

*"We feel we have more than enough money to fund our retirement."*

*"It's painful to see how much of our annuity will get eaten up by taxes when we pass away."*

*"I've discovered I actually don't need these annuities for income."*

*"What assets would be best used to fund our estate plan and/or ILIT?"*

## RIGHT QUESTIONS TO ASK

*"Do you have funds earmarked for passing to your heirs upon your death?"*

*"If you're certain you won't need these funds in your retirement, would you choose the government or your family to get the bulk of this money when you pass away?"*

*"Would you like to explore how, using those funds, you could multiply the amount of financial legacy you leave for your loved ones?"*

# PENSION MAXIMIZATION STRATEGY

A powerful way to use life insurance to maximize pension benefits

## CONCEPT DESCRIPTION

Clients with a pension may have different payout options at the time of retirement, similar to an annuity when it's annuitized. If the client is healthy at the time they elect their pension payout option, they may be able to provide higher income payouts to both themselves and their spouse over their lifetime.

Achieve a higher income while both spouses are alive by both selecting the single-life-only payout option (typically the highest pension-income payout) and purchasing life insurance on the pension owner. The life insurance proceeds can also provide a spousal income equal to or greater than the joint-life-income option the pension would provide if the owner passes away before their spouse.

The difference in the pension's single- and joint-life payout options can produce the funds used to purchase the life insurance on the pension owner. The life insurance need decreases over time, so a laddered approach using both term and permanent life insurance is typically used. In addition, long-term care/chronic illness needs may be addressed through a rider on the life insurance policy, providing additional value to the family.

## CLIENT PROFILE

- Age 55+, married, near or getting ready to turn on income from their pension, and in good/average health
- Desire for their pension to provide income for both themselves and their spouse
- Should the owner pass away first, they can use their current health status to cover lifetime income needs for their spouse at a lower cost than what the pension charges to provide joint-lifetime income vs. single-life income

## Key Selling Points

- Potentially increase the annual income amount a married couple can receive compared to the options the pension offers by taking the single-life-pension option and using some of the extra monthly income provided to buy life insurance
- The life insurance death benefit can be used to provide an income stream for the surviving spouse
- The ability for healthy clients to use their health to obtain low-cost life insurance
- Could consider designing a life insurance package that ladders coverage to decrease in death benefits over time as the total amount needed to provide lifetime income for the spouse decreases as they get older
- If the spouse passes away before the pension owner, the life insurance on the pension owner still provides value and can be payable to their children/beneficiaries/charity (The joint income option on the pension might not provide any value if that were to occur)
- Long-Term Care/Chronic Illness riders/Accelerated death benefits can provide access to a pool of money if the insured develops a qualifying illness and if the policy ownership is structured to allow them access to those funds



## CASE STUDY

Bob is 61 years old and preparing to retire from his teaching position, where he has worked for 35 years. He has a pension he'll access for income.

If Bob chooses the single-life option with his pension, he'll receive \$5,500/month for his lifetime. If he wishes to provide income for himself and his wife, the income decreases to \$4,000 per month for a survivor income option. Since Bob is healthy, he could take the single-life-income option and purchase life insurance that would provide a lump sum that could generate \$4,000 per month for his wife using some of the extra \$1,500/month in income he receives.

Based on single premium immediate annuities (SPIA) rates, a lump sum of \$758,500 is currently required to provide a \$4,000/month income for Bob's wife. This amount decreases to \$600,000 when he reaches age 70 and \$424,000 at age 80, so the life insurance can be designed to decrease over time to keep the insurance cost as low as possible. Based on Bob's health and a life insurance policy designed to decrease in coverage every ten years, the monthly fee for a policy that provides \$4,000/month to Bob's wife, should Bob pass away first, would be about \$700/month.

Using the pension max concept, Bob's able to create a joint-survivor-income option that provided \$4,800 monthly income instead of the \$4,000 monthly income his pension offered directly. If Bob's wife passes away before him, the full death benefit goes to Bob's children and creates a meaningful legacy, whereas the pension would've provided nothing to the children.

## CLIENT COMMENTS TO WATCH FOR

*"How can we maximize my pension income for my spouse and me?"*

*"Why is the gap between individual and survivor income so big?"*

*"If my spouse passes away before I do, we wasted a huge amount of money by selecting the survivor-income option on my pension."*

*"What do we risk by selecting the individual-income option and trying to maximize the income my pension can generate?"*

## RIGHT QUESTIONS TO ASK

*"Do you understand the different options available with your pension income?"*

*"Would you like to see if you could provide continual income for your spouse at a lower cost than what your pension will charge you?"*

*"Would you like to see an option that ensures income will continue for your spouse but also provides a significant value to your kids if your spouse passes before you?"*



# IRREVOCABLE LIFE INSURANCE TRUST FOR LEGACY PLANNING

## A versatile tool for Estate Planning

### CONCEPT DESCRIPTION

An irrevocable life insurance trust (ILIT) is a variation of an irrevocable trust. It's used to purchase and hold life insurance and keep the death benefit proceeds out of the insured grantor's estate.

This strategy enables the grantor to leverage their annual gift-tax exclusion or lifetime-gift-tax exclusion to purchase life insurance outside of their estate creating liquidity upon their death. The money can be used to pay state or federal estate taxes, estate equalization, wealth replacement, or other liquidity needs.

Utilizing an ILIT removes the life insurance proceeds from the gross estate, thereby reducing the taxable estate. Legal ownership of the trust resides with an appointed trustee, who cannot be the grantor, acting in the best interest of the beneficiaries.

### CLIENT PROFILE

- Age 50+, with a need for liquidity at their passing to fund an efficient transfer of assets or to pay projected estate taxes.
- Desires to set up an estate plan
- Is okay with permanently removing assets used to fund the life insurance policy from their estate and control

### Key Selling Points

- Potential to significantly increase the after-tax amount passed to heirs
- Ability to leverage annual gifts to the trust into a death benefit amount that can pay projected estate taxes or provide liquidity to prevent a forced sale of a family asset
- Could consider using an individual or a survivorship life insurance policy
- The grantors of the trust can't be the trustee or a beneficiary of the trust; they must not invoke any incidences of ownership which could include modifying or revoking any part of the trust or life insurance policy

### CASE STUDY

Joe and Cathy are 60 years old with three kids and six grandchildren. They've accumulated significant wealth and have a projected estate-tax liability of \$7,000,000 at their joint life expectancy of 33 years.

They desire to set up an estate plan to pay the estate tax at their death so their family and charities can inherit what they have worked so hard to create. Joe and Cathy work with planners to set up an ILIT and purchase a \$7,000,000 survivorship policy that's owned and held inside the ILIT with an annual premium of just over \$85,000.



They hire a third-party trustee to manage the ILIT while they're still living. By naming each of their children and grandchildren as beneficiaries of the ILIT, Joe and Cathy can both gift up to \$15,000 to each named beneficiary per year. The total annual gift exclusion they can use is currently \$270,000, so the annual premium of just over \$85,000 remains well within the limits.

Joe and Cathy begin gifting just over \$85,000 per year to the new ILIT, and the trustee purchases the \$7,000,000 life insurance policy on their lives. Joe and Cathy feel confident this estate plan will provide the liquidity needed at their deaths to prevent any real estate from having to be sold and to pay any necessary estate taxes.

Since the trust assets are invested in a life insurance policy, any growth in the cash value grows tax-deferred and isn't subject to trust income tax rates.

### CLIENT COMMENTS TO WATCH FOR

*"I struggle seeing so much of our assets used to pay estate taxes instead of going to family and charities."*

*"Is there a way for us to pay the estate tax in advance so our family doesn't have to worry about it?"*

*"I worry our family will have to sell our vacation home/business/farm/etc. when we pass away."*

*"If we buy life insurance, wouldn't that just increase our estate value and leave us paying even more in estate taxes?"*

### RIGHT QUESTIONS TO ASK

*"How do you plan on paying the estate tax projected to be due on your estate?"*

*"Does it bother you to see the IRS getting so much of your estate based on the current state and federal estate tax law?"*

*"Are you concerned that upon your death, your family will have to sell an asset you want them to be able to keep to pay estate taxes or equal out the inheritances?"*

*"Did you know there's a technique that sets up a life insurance policy outside of your estate so that when you pass away, there's cash available to be used for many of the goals you've mentioned?"*

# WAIT AND SEE | PREMIUM SKIP DESIGN FOR ESTATE PLANNING

Funding an estate plan despite the uncertain legislation that can either give you your money back or improve the death benefit IRR.

## CONCEPT DESCRIPTION

When creating an estate plan, the hardest question to answer may be: “What will estate taxes be when I pass away?” While no one knows that answer, you can fund your estate plan in a way that creates flexibility to adapt to changes that may or may not occur. Funding a survivorship life insurance policy with an appropriate single premium to start and then putting nothing more into it for 10-15 years can accomplish several attractive goals during that timeframe.

It can buy time to see what estate taxes may look like down the road while protecting your insurability for the future. It can project a cash value at the end of the 10- or 15-year period equal to what you paid in, so if you no longer need the policy for estate taxes, you can get your money back. If the policy is still required after the 10- to 15-year period, level or increasing premium payments can resume covering the increasing cost of insurance charges.

It also may increase the policy’s internal rate of return on the death benefit over a traditionally funded policy should you wish to continue the policy and begin annual premiums.

## CLIENT PROFILE

Age 60 or over, near or in retirement, and in average to good health. Has a projected estate tax liability centered on future estate tax exemptions, but that could change based on future legislation. The client desires to put a plan in place to pay for estate taxes while they’re healthy but also wants to be able to pivot or recoup costs as estate tax legislation changes.

## Key Selling Points

- Ability to put a plan in place that can buy time and adapt to an ever-changing estate tax landscape
- Ability to recoup the initial investment cost by surrendering the policy after 10-15 years, based on current policy projections
- Could consider an individual or a survivorship life insurance policy with this strategy and could set up an ILIT to own the policy to remove it from the estate
- Internal rate of return (IRR) on the death benefit can be higher than a traditionally funded policy up to and potentially beyond life expectancy

## CASE STUDY

Tom, age 63, and Cathy, age 66, have a projected estate tax liability of \$2,000,000 at their joint life expectancy. They see how life insurance is a smart option to plan for paying that estate tax liability, but they’re unsure if the legislation around estate taxes will be the same in the future. By investing \$150,000 of unutilized cash equivalents into a survivorship life insurance policy, they can secure a \$2,000,000 death benefit and not have to pay another premium for 15 years.



After 15 years, if the estate tax laws have changed and they determine they no longer need the coverage, they can surrender the policy and get their \$150,000 back based on current projections. If they do need the coverage, they’ve protected their insurability, locking in the cost of insurance charges while they were healthy. They can start paying premiums that ratchet up each year or in five-year increments to try to pay the least amount possible for their coverage.

This approach also projects a higher IRR on the death benefit than traditional annual premium funding at their joint life expectancy. Owning this policy in an irrevocable life insurance trust (ILIT) or gifting it to an ILIT after the initial 15-year wait-and-see period removes the death benefit from the estate to assist in estate planning objectives.

## CLIENT COMMENTS TO WATCH FOR

*“I know we may have estate tax due when we pass away, but how do we know what to plan for today as it seems legislation is always changing.”*

*“I wish life insurance inside of our estate plan could be flexible and change with our needs.”*

*“I don’t want to throw away money protecting our estate from an estate tax that we may not need to worry about.”*

*“I’m worried that by the time we feel we know what our estate tax liability will be, we won’t be healthy enough to buy life insurance.”*

## RIGHT QUESTIONS TO ASK

*“Do you have a plan for estate taxes that can change as legislation and exemption limits change over time?”*

*“What are your concerns about your estate and estate taxes?”*

*“Would you like to explore how a creative way of funding life insurance can buy time and protect your insurability with the option to get your money back if you no longer need the coverage?”*

# ESTATE EQUALIZATION STRATEGY

Preserve family harmony and business continuity

## CONCEPT DESCRIPTION

When planning to distribute an estate that includes a business, it's common for one or more children to no longer be involved in that business. Family businesses risk being dissolved because of conflicts over desired inheritances once the founders pass away.

Life insurance can provide liquidity to fairly treat other siblings who have no desire to take over the family business. The life insurance policy can be held inside or outside the owner's estate (using an irrevocable life insurance trust, or ILIT) and will provide cash instead of business shares to the heirs not interested in becoming a part of the family business.

This equal treatment preserves long-term family harmony and unity while providing business continuity with a planned succession. This strategy can also be used for any estate that wishes to pass on an illiquid asset to only one child but desires to avoid inequalities in the inheritances of other children.

## CLIENT PROFILE

Age 50 or over, near or in retirement, and in average to good health. Has an estate that requires liquid assets to provide equal distributions to family members at death. Has a strong desire to be fair to all family members and has a desire to see the family business or real estate remain in the family and not have to be sold.

## Key Selling Points

- The potential to significantly increase the after-tax amount that passes on to heirs as the life insurance death benefit isn't subject to income taxes
- The ability to move these assets outside the estate if desired and protect the life insurance death benefit from estate taxes
- Could consider an individual or a survivorship life insurance policy with this strategy
- Could consider using an increasing death benefit option on the policy to gradually grow the death benefit to keep up with the increasing value of the asset

## CASE STUDY

Tom and Cathy have four grown kids and have run a home-building business for over 30 years. Two of their kids are heavily involved in the family business, while the others aren't and live several hours away.

Tom and Cathy are concerned that, when they pass away, their kids may struggle to fairly determine what to do with the \$4,000,000 family business without causing animosity amongst them. Tom and Cathy learn how life insurance can provide liquidity that allows the two kids who don't want to be a part of the family business to receive an equal share in cash versus company stock and enable the business to stay running rather than sold.



They purchase a life insurance policy with a \$2,500,000 death benefit, which equals 50% of the estimated future value of the company. The two children who want to carry on the family business can own and run the company after Tom and Cathy's passing and don't have to have two additional siblings as partners. Tom and Cathy are at peace with what's most important to them: the family staying close and treating everyone fairly.

## CLIENT COMMENTS TO WATCH FOR

*"Not all of our kids are involved in the family business."*

*"I wish our daughter could keep the condo we own, but our son doesn't like to vacation there."*

*"I don't think our kids would make great business partners."*

*"How do we treat our children fairly so they stay close?"*

## RIGHT QUESTIONS TO ASK

*"Do you have any assets, real estate, or business interests that not all your kids may want after you pass?"*

*"What are your fears about your children when they inherit your estate?"*

*"Would you like to explore how we can create a pool of cash that can equalize each heir's portion and help ease family tensions?"*



# BUY/SELL PROTECTION FOR BUSINESSES

A vital tool for any business

## CONCEPT DESCRIPTION

A buy/sell agreement ensures stability in business transitions and prevents heirs from having to run or sell the business after an owner dies. Typically, a buy/sell agreement states the remaining owners will buy the ownership shares of the deceased or disabled partner.

To fund this purchase obligation, the business owners purchase and own life insurance and a disability policy on the life of each owner. When an owner dies, the death benefit provides the cash to buy the deceased owner's shares from their estate. This protects the deceased's family and other owners from any unintentional business partner.

Three common types of buy/sell agreements based on the number of company owners:

- **Cross-Purchase Agreement** – Each owner buys insurance on every other owner equal to their share of the buyout. Upon death, the death benefit gives the remaining owner's the cash to buy out the deceased owner's shares. Typically used when there are two or three owners. Since each individual owns their policy, they get a step-up in basis for the acquired shares.
- **Entity-Purchase Agreement** – The business buys and owns insurance equal to the buyout for each owner's shares. Upon death, the company receives the death benefit and uses it to buy out the shares from the deceased owner's family. The remaining business owners won't receive a step-up in basis for the acquired shares. Typically used when there are three or more owners.
- **One-Way Agreement** – An individual (usually a key employee) has agreed to buy the business from a sole owner. The proposed buyer will purchase insurance on the current owner to fund the purchase if the owner dies before the transition/sale date. Typically used when there's one owner and a proposed buyer.

## CLIENT PROFILE

- Any business owner who needs liquidity to fund an efficient transfer of ownership of their business interests upon their death.
- Any business owner who desires to protect each current owner from unintentional business partners and intends for their family to receive a buyout instead of the burden of running a business should they die before retirement.

## Key Selling Points

- Ability to provide the capital needed to buy out a deceased partner's shares without having to pay out of pocket for the shares per the written buy/sell agreement
- A current business valuation and future growth projection are key to understanding how much life insurance coverage is needed to fund the agreement
- Could consider using term insurance to fund the agreement or a cash value policy that's transferrable to the owner should they leave the business
- Heirs who aren't involved in the business get needed cash instead of business shares



## CASE STUDY

Bob and Jim started and are 50/50 owners of a local sign company that's grown in value to \$5,000,000. Bob and Jim created a Buy/Sell agreement that dictates what'll happen if either becomes deceased or disabled.

Bob buys a life insurance policy on Jim's life for \$2,500,000, and Jim does the same on Bob's life. Both pay the premiums and own the policy individually. If Bob passes away, Jim receives a \$2,500,000 cash death benefit from the insurance carrier, which he uses to buy Bob's shares from his heirs. This means Jim won't have to be business partners with Bob's spouse or kids who aren't involved in the business. Jim also has a cost basis of \$2,500,000 for the shares he purchased from Bob's estate meaning he owes less tax at time of the sale of the business.

## CLIENT COMMENTS TO WATCH FOR

*"I worry what'll happen if my business partner dies."*

*"We have a Buy/Sell agreement, but I don't know where I'll get the money to buy my partner out if he passes away."*

*"I don't want my spouse to have to help run the company if I were to pass away."*

*"We haven't purchased any life insurance to fund a Buy/Sell agreement because we don't know how much or what type of life insurance to buy."*

## RIGHT QUESTIONS TO ASK

*"Do you have a Buy/Sell agreement for your business?"*

*"Do you have the capital to buy out your partner if they pass away, or would you be interested in shifting some of that risk away?"*

*"Do you have a current business valuation to ensure your family gets the full amount if you die before you retire?"*

*"Would you like a specialist to review your current Buy/Sell agreement to ensure you and your partners are properly protected and it's up to date?"*



# RESTRICTED EXECUTIVE BONUS ARRANGEMENT (REBA)

A top concern of business owners today is retaining their top talent.

## CONCEPT DESCRIPTION

One of the most significant risks in today's job market to a successful business is losing a key employee. Companies are getting creative and implementing strategies to help retain their top talent, and a Restrictive Executive Bonus Arrangement (REBA) can do just that.

Like a traditional bonus arrangement, an employer pays the premium on a life insurance policy owned and on the life of key employees in the form of an employee benefit. The difference is that with a REBA bonus plan, the employees' access to cash value in the life insurance policy is limited until specific triggers are met. Triggers can be the passage of a certain amount of time, retirement, or other considerations.

These restrictions can act as a golden handcuff to help a business recruit, retain, and reward top talent in its industry. Except for the limitation on access to the cash value, the policy is owned and controlled by the employee.

## CLIENT PROFILE

Ideal clients for the REBA strategy are key executives or employees at a business that wish to provide an employee incentive to stay with their company. The business or decision-maker is willing to pay a bonus to an employee in the form of a life insurance premium and desires a vesting or restriction period that the employee must stay with the company for before they can access the cash value.

## Key Selling Points

- The employer can deduct bonus payments under IRC Section 162 provided the total amount of compensation is reasonable (employee will owe ordinary income taxes on the bonus contributions at the time they're given)
- A separate restrictive agreement prevents an employee from accessing the cash value of the policy, thus creating an incentive for them to stay with the company until a triggering event
- The employee has control to designate beneficiaries, and death benefits are paid income-tax-free to employee's beneficiary
- Very straightforward and easy to implement and maintain
- "Double bonus" may be attractive—where the employer bonuses both the income tax due and the policy premium to the employee
  - o **Example:** 30% tax bracket, a \$17,143 bonus nets \$12,000 annual premium to the policy



## CASE STUDY

Jim is the sole owner of ABC, Inc. and wants to offer something special to his leading salesperson, Jenna. He wants to reward Jenna for her dedication and hard work while protecting her from being poached by his competition.

Jim can set up a REBA for Jenna, and the bonus paid by ABC is deductible. Jim would like for Jenna not to incur any taxable expenses as well. Jim can then "double bonus" Jenna to cover the income tax due from her on the life insurance policy premiums. He can also put a restrictive agreement around Jenna's access to the cash value in the policy.

Jim and Jenna agree that for the next ten years, Jenna won't have access to the cash value but can designate the beneficiary and own the life insurance policy herself. The policy is designed to be max funded during those ten years by ABC, Inc. It's projected to provide Jenna with a substantial death benefit for her family or an income stream in retirement that she otherwise wouldn't have.

## CLIENT COMMENTS TO WATCH FOR

*"I'm really worried; it'd be very hard for me to recover if one of my key employees left."*

*"I hear about companies doing all kinds of creative things these days for their employees. Is there something I can do for certain employees to entice them to stay?"*

*"I wish there was a bonus I could pay my employees but require them to stay for a certain period of time before they fully vested in it."*

## RIGHT QUESTIONS TO ASK

*"Would you be interested in providing a bonus arrangement to critical employees that provides them a meaningful benefit but restricts their access to it until an agreed-upon timeframe with the company?"*

*"Would you want to hear about what some other companies are doing to keep their key employees in this crazy job market?"*



# RETURN OF PREMIUM TERM STRATEGY

## Can term insurance premium dollars also provide a guaranteed return?

### CONCEPT DESCRIPTION

Clients who've decided to purchase term life insurance typically do so because it's the lowest-cost option to provide coverage or because they only need it for a temporary number of years. Typically, when a client reaches the end of the guaranteed term period, their premiums increase dramatically, and therefore, most will consider dropping their coverage and will get nothing in return.

At the end of the guaranteed term duration, clients will get every dollar returned in premium they paid into the policy with return of premium (ROP) term life insurance. There's an increased cost compared to traditional term products, but if someone is going to buy term coverage anyway, paying the slightly higher premiums can result in a way to get all their premium dollars back.

If you look at the price of traditional term as a sunk cost and factor in what rate of return a client must earn on the difference between the cost of ROP term and traditional term, it can make a lot of sense. Especially considering that the return is guaranteed and that there's no income tax due when you get your premium dollars back because it's all considered basis.

ROP term insurance can be a great way to add a lot of creative value for your clients as well as turn typically small term insurance sales into something more valuable to you and your firm.

### CLIENT PROFILE

Ages 18-50, and in good or average health. The client should have a need for life insurance coverage and is considering using term insurance to cover that need. The client may need coverage for individual family planning or possibly a business owner who needs temporary coverage. They don't like the idea of wasting money on life insurance premiums but may find permanent coverage too expensive.

### Key Selling Points

- Ability to get all premium dollars back if they outlive term coverage
- Can offer a business that needs term insurance for a buy/sell or for a loan to get their premium dollars back if coverage isn't used
- When premiums are returned at the end of guarantee period, there's no income tax due
- A strong guaranteed rate of return can be realized when comparing traditional term premiums to ROP term premiums
- Paying a higher premium amount can return every dollar paid
- Provides options for the insured at the end of the term period by providing a pool of money they could use to jumpstart a new policy if coverage is still needed



### CASE STUDY

Max is a healthy 32-year-old that's newly married and is planning to purchase a \$1,000,000, 30-year term insurance policy for \$829 per year. Max has seen projections using IUL and whole life products to provide the same coverage and build some cash value but feels the premium doesn't fit into his current budget. However, he also doesn't like the idea of not getting anything back from all the term premium dollars he's spending in the likely case he lives longer than 30 years.

Max's agent shows him ROP term options and for \$1,760 per year, Max can get the same coverage but gets back all the \$52,800 he pays at the end of the 30-year guarantee period. Since he was planning on spending \$829 per year for the tradition term policy, by paying an additional \$931 per year, he can recoup every single dollar put into the policy.

If Max were to invest that \$931 per year somewhere else, he'd have to find a guaranteed rate of return of 4.07% to achieve a total of \$52,800 at the end of 30 years. With the ROP term policy, Max would receive the \$52,800 at the end of 30 years, tax-free, because it's a return of his basis and there's no actual gain inside the policy. If he invested the \$931 per year outside of the ROP term policy, he'd most likely have to pay income taxes on the gain each year along the way. Therefore, the pre-tax return he'd need to achieve is more like 5.43%.

Considering the ROP term policy provides a guarantee from the insurance company that they'll return all premiums after 30 years, Max would have to find an investment that guarantees him a pre-tax rate of return of 5.43% for the next 30 years assuming he's in the 25% tax bracket.

Max was thrilled with this option, and the agent more than doubled his commission as well.

### CLIENT COMMENTS TO WATCH FOR

*"I like the cost of term insurance, but I feel like I'm throwing away dollars if I outlive the coverage."*

*"What happens at the end of the guarantee period if I buy term-ins?"*

*"I like the idea of cash value life insurance, but I don't feel like I can afford that much premium."*

*"Is there a way for our buy or sell coverage to be more valuable to my business instead of just an expense?"*

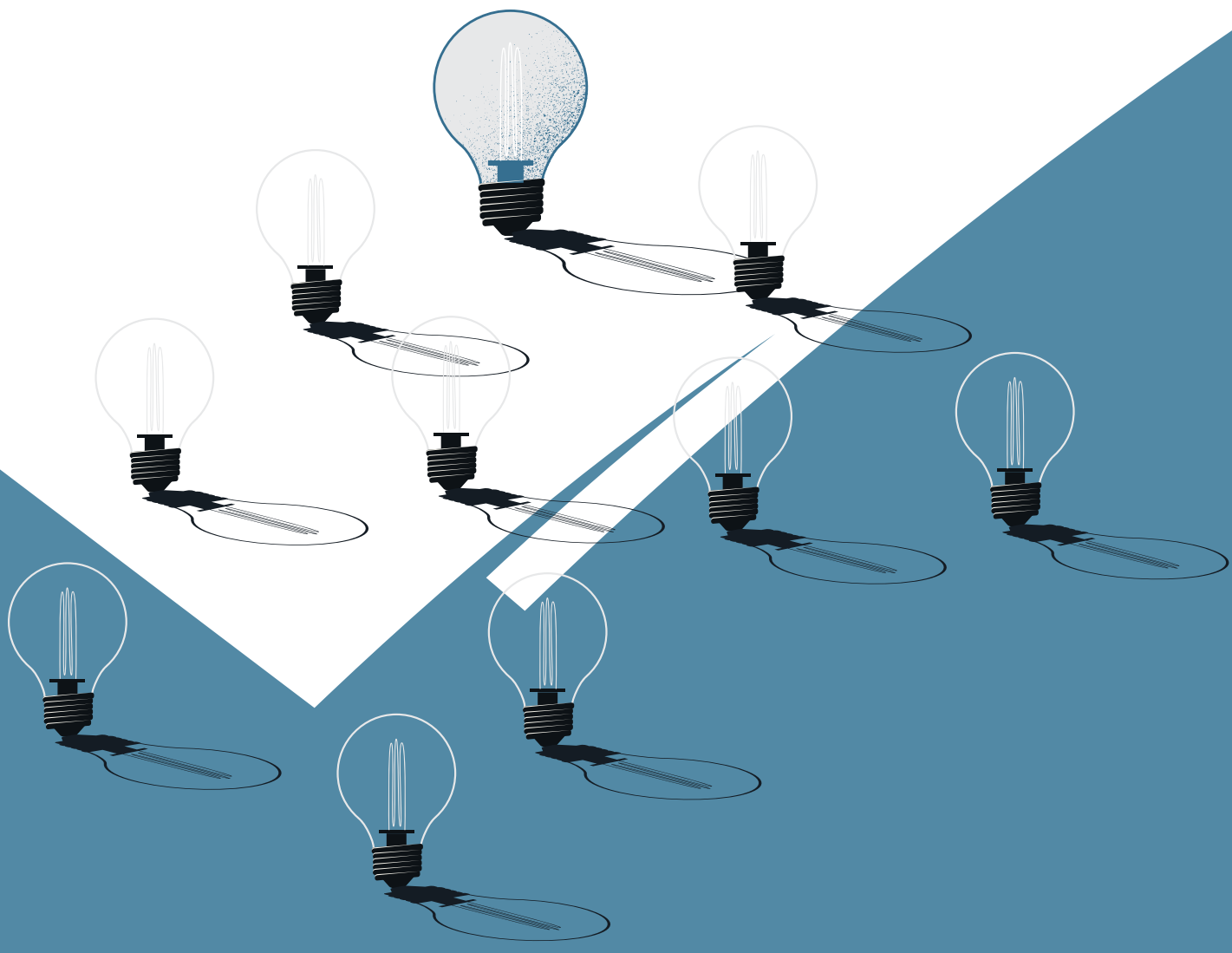
### RIGHT QUESTIONS TO ASK

*"Would you be interested in learning how you can be guaranteed to get your term insurance premiums back if you live longer than the term period?"*

*"Does a guaranteed return of between 4-5.5% for the next 30 years interest you?"*

*"Would you like to explore how to take advantage of an opportunity you have when purchasing a new term insurance policy that'll guarantee you get all your premiums back if you pay an extra amount?"*





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