

CASE OF THE QUARTER
CASE # 3
THE CLIENT WITH LIFE INSURANCE
NOT WORKING AS PLANNED

GOAL

Client wants his Estate Tax liability funded so that his daughter does not have to sell the business or create a large mortgage at his death.

FACTS

Client acquired a \$2,000,000 policy back in 1997 that was “assumption” based. The assumption was that interest would remain high and that premiums would only be made for ten years. Premiums had been \$60,000 per year and eleven years later the insurance company was saying that he would now have to pay another eighteen years, and even that was not guaranteed. Current cash value of the policy was \$450,000. Client also had donated a kidney to a brother and this has caused a pressure issue with his heart. This is a very rare condition but, none the less, posed a problem.

SOLUTIONS

1. We went to the Life Settlement market to see if anyone was willing to pay more than \$450,000 for the policy. After nine months of negotiation we found two interested parties and ended up with an offer of \$650,000 for the existing policy.
2. We next went to the insurance underwriters to see if anyone would give the client a new \$2,000,000 policy based on guarantees as opposed to assumptions. The pressure issue became immense. It seems that most of us have a pressure rating of 50 or greater, and our client had one of 39. No one wanted to insure him! So we went for another pressure rating and our client ended up with a 49.5. This might have been acceptable but with the prior reading of 39, we were now faced with a policy requiring extra premiums.
3. We continued to negotiate with many carriers and finally got one carrier to offer a guaranteed 18- pay of \$60,000 per year (essentially the same premium as current but now guaranteed to be done).
4. We also got the carrier to write a letter to the client agreeing to reduce the years to pay if his pressure ratings improve. If we can get consistent, normal readings, we will be done paying premiums on a guaranteed basis in five to seven years.

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