A Power Planning Technique for Wealthy Families

Using The Private Spousal Irrevocable Life Insurance Trust (ILIT)

WANT TO ILLUSTRATE THIS CONCEPT?

Use JH Solutions Desktop: Private Spousal ILIT

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What is innovation? Can it be defined? One way to be innovative is to use existing tools in a new way that makes each of them more helpful than they were before. The Private Spousal ILIT takes two tried and true planning tools, Private Financing and the Spousal Access Trust, and combines them to create a powerful and flexible approach that can be used to solve a wide variety of planning problems.

To understand how a Private Spousal ILIT works, you need to understand its underlying techniques. In its simplest form, Private Financing is a fair-market loan from a donor to a trust, which then generally uses the funds to purchase life insurance. The loan interest is based on the current Applicable Federal Rate (AFR) and may either be paid outright by the trust each year or accrued with the total loan balance. The loan may be repaid in future, either from trust assets or from the policy death benefit.

What is a Spousal Access Trust?

A Spousal Access Trust is an Irrevocable Life Insurance Trust (ILIT) set up for the benefit of the client's spouse (and children, if desired) with provisions that allow, at a minimum, for distributions to the trust beneficiaries for health, maintenance, education and support. These distributions may occur during the lifetime of the trust donor, so the donor's family does not need to give up access to the trust assets and can access any potential policy cash value via policy loans and withdrawals.

What is a Private Spousal ILIT?

A Private Spousal ILIT combines the two techniques, allowing the client to enjoy the flexibility of a Spousal ILIT and access to the potential policy cash values with the reduced gift and estate tax profile of Private Financing. However, the real power of the Private Spousal ILIT is its versatility. The following case studies demonstrate how the Private Spousal ILIT can help three very different types of clients.

Looking for an easy way to keep up-to-date on the regulatory and tax changes?

Interest rates are still at an all time low, which makes it an ideal time to borrow. Our Central Intelligence Newsletter depicts the history of the AFR, as well as recent regulatory updates, tax rule changes, Private Letter Rulings, and clarifications as it relates to the life insurance industry. For a copy of the newsletter, contact an Advanced Markets Consultant at 888-266-7498, option 3.

CASE STUDY 1

Younger Ages, Emerging Affluent/High-Income Wage Earner

SCOTT DAVIS is a young baseball player (Male, Age 35, Preferred Non Smoker) who just moved from the minor to the major league. He is married with young children, and realizes that while he has received an impressive $2M signing bonus, his longevity in his sport is limited. He wants to build an additional asset pool that will protect his spouse and family while also building additional retirement assets.

Scott creates a Private Spousal ILIT and lends the trust his $2M bonus under a 9-year note. The trust will invest the money at 7%, and use the earnings to pay loan interest to Scott at 1.67% and fund a $3.1M John Hancock Accumulation IUL policy with a premium of $100,000 for nine years. In year 10, the trust repays the loan and Scott receives his $2M bonus money back. The trust is left with the life insurance policy, which is projected to provide income of about $313K a year from age 65 through Scott's life expectancy of age 83.

CASE STUDY 2

Older Ages, Moderate High-Net-Worth Client ($3M to $15M), Retirement Backstop Approach

PHILIP MARTIN (Male, Age 50, Preferred Non Smoker) is a successful businessman who has accumulated substantial assets during his lifetime. He would like to protect his wife, their children, and their grandchildren financially. He is also concerned about outliving his savings, is open to new planning ideas, and wants to maintain control of his assets.

Philip will create a Private Spousal ILIT with a Generation Skipping Transfer (GST) provision, and lend it $2M under a 9-year note. The trust will invest the money at 7%, and use the earnings to pay loan interest to Philip at 1.67% and fund a $1.7M John Hancock Accumulation IUL policy with a premium of $100,000 for nine years. The trust will repay the loan at the beginning of year 10, and Philip will regain control of that $2M. Should Philip and his wife outlive their other assets, the policy is projected to be able to provide loans and withdrawals of around $300K for 21 years starting when Philip is age 80. Philip has therefore protected his family in the event of his premature death, and protected himself and his wife from the risk of outliving their assets.

These are supplemental illustrations. Not all benefits and values are guaranteed. The assumptions on which the non-guaranteed elements are based are subject to change by the insurer. Actual results may be more or less favorable.

CASE STUDY 3

Inter-generational Legacy

MICHAEL & WINNIE DARIN are a wealthy couple in their 80s with a substantial estate, but are in poor health and hence uninsurable. Their children have modest wealth, but will eventually inherit the Darin estate. The Darins would like to create a trust that will provide a legacy for their extended family in a tax ef cient manner.

The Darins will create a Private Spousal ILIT with a GST provision, and lend it $5M under a 20-year note (10-Year Interest Only, 10-Year Amortization) with interest of 2.57%. The trust will purchase a variable survivorship life insurance policy with a face amount of about $5.8M on Michael Jr. and his wife Mary (Male, Age 50, Preferred Non Smoker; Female, Age 48, Preferred Non Smoker) and with a premium of roughly $200K for nine years. Starting in year 10, the trust will use trust assets to repay the loan to the Darins over 10 years. (Should the Darins die before the loan is repaid, they could leave the note to one of their children or the Private Spousal ILIT itself.) Then, in year 21, the trust will use income from the policy and trust assets to provide $400K of income to the children and grandchildren for over 30 years. And, of course, the trust will also receive the death proceeds when Michael Jr. and Mary die.

The Darins have therefore been able to provide an ongoing source of income for their children and grandchildren without incurring gift or GST taxes.

The data shown is taken from an illustration. It assumes a hypothetical rate of return and/or current interest crediting rate and may not be used to project or predict investment results. Unless indicated otherwise, these values are not guaranteed. We urge you to show your clients a basic illustration showing the impact of 0% and maximum sales charges and/or the guaranteed interest crediting rate and an impact it will have on policy cash value and death benefit.

CONCLUSION

The Private Spousal ILIT combines two powerful planning concepts into one innovative approach that can ramp up the bene t you provide to your clients. For more information or to see JH Solutions output associated with these case studies, contact an Advanced Markets Consultant at 888-266-7498, option 3.