

A CAPITAL-EFFICIENT SOLUTION TO LIFE INSURANCE

Once it is determined that life insurance is appropriate for a client, given their estate planning and wealth transfer objectives, the next decision is how to pay the premiums most efficiently. Most advisors design insurance with a level premium schedule, however there are situations when a client can choose to defer a significant amount of premiums. **Deferred premium schedules allow clients to pay one entry premium and then defer premiums for a period of up to 30 years, allowing them to minimize current cash expenses and allocate more investment to their business, real estate, and other assets, while still purchasing the needed coverage amounts.**

DEFERRED PREMIUM SCHEDULES WORK WELL FOR CLIENTS WHO:

- *Have a taxable estate above the current or projected Lifetime Exemption Amount*
- *Earn a high rate of return on their assets (real estate, private businesses, private and public markets)*
- *Do not have the risk tolerance or sophistication for premium financing*

HOW DEFERRED PREMIUM SCHEDULES WORK:

1. *Client has or creates an Irrevocable Life Insurance Trust (ILIT), which is the owner of the life insurance policy.*
2. *Client determines the desired deferral period, which can be 10, 20, or even 30 years.*
3. *Client pays initial “placement” premium to put the policy in-force.*
4. *At the end of the Deferral Period, the Client can choose to keep the policy in-force by continuing to pay premiums or can decide the policy is no longer needed and let the coverage terminate.*

-SEE CASE STUDY ON NEXT PAGE-



PH Robb
PRIVATE CLIENT ADVISORS

PHROBB.COM | INFO@PHROBB.COM | (520) 885-5155



CASE STUDY: YOUNG HIGH NET WORTH CLIENTS

An advisor had a High-Net-Worth client that was projected to have a taxable estate at death. However, the Client is young (Mid-50's) and is not sure if future estate or charitable planning would reduce future potential estate taxes. The Client and advisor were considering paying \$143,235 per year to purchase a \$15,000,000 life insurance policy but wanted a solution that **reduced current cash cost**. By restructuring the premium schedule and **deferring premium payments for 25 years**, the client was able to dedicate current cash flow to investments instead of premium payments and the advisors had 25 years to continue estate planning for the client. Optimizing the client's capital allocation allowed the client to accumulate over **\$10,000,000 of additional assets** at life expectancy in addition to the **\$15,000,000 of life insurance**.

Year	Age #1	Age #2	Death Benefit	Level Premium	Optimized Premium	Invest the Difference at 8%
1	59	55	\$15,000,000.00	\$143,235.00	\$375,000.00	(\$231,765.00)
2	60	56	\$15,000,000.00	\$143,235.00	\$0.00	(\$88,530.00)
3	61	57	\$15,000,000.00	\$143,235.00	\$0.00	\$59,081.40
4	62	58	\$15,000,000.00	\$143,235.00	\$0.00	\$218,501.71
5	63	59	\$15,000,000.00	\$143,235.00	\$0.00	\$390,675.65
6	64	60	\$15,000,000.00	\$143,235.00	\$0.00	\$576,623.50
7	65	61	\$15,000,000.00	\$143,235.00	\$0.00	\$777,447.18
8	66	62	\$15,000,000.00	\$143,235.00	\$0.00	\$994,336.76
9	67	63	\$15,000,000.00	\$143,235.00	\$0.00	\$1,228,577.50
10	68	64	\$15,000,000.00	\$143,235.00	\$0.00	\$1,481,557.50
11	69	65	\$15,000,000.00	\$143,235.00	\$0.00	\$1,754,775.90
12	70	66	\$15,000,000.00	\$143,235.00	\$0.00	\$2,049,851.77
13	71	67	\$15,000,000.00	\$143,235.00	\$0.00	\$2,368,533.71
14	72	68	\$15,000,000.00	\$143,235.00	\$0.00	\$2,712,710.20
15	73	69	\$15,000,000.00	\$143,235.00	\$0.00	\$3,084,420.82
16	74	70	\$15,000,000.00	\$143,235.00	\$0.00	\$3,485,868.29
17	75	71	\$15,000,000.00	\$143,235.00	\$0.00	\$3,919,431.55
18	76	72	\$15,000,000.00	\$143,235.00	\$0.00	\$4,387,679.87
19	77	73	\$15,000,000.00	\$143,235.00	\$0.00	\$4,893,388.06
20	78	74	\$15,000,000.00	\$143,235.00	\$0.00	\$5,439,552.91
21	79	75	\$15,000,000.00	\$143,235.00	\$0.00	\$6,029,410.94
22	80	76	\$15,000,000.00	\$143,235.00	\$0.00	\$6,666,457.62
23	81	77	\$15,000,000.00	\$143,235.00	\$0.00	\$7,354,468.03
24	82	78	\$15,000,000.00	\$143,235.00	\$0.00	\$8,097,519.27
25	83	79	\$15,000,000.00	\$143,235.00	\$530,783.00	\$8,326,768.97
26	84	80	\$15,000,000.00	\$143,235.00	\$530,783.00	\$8,574,358.65
27	85	81	\$15,000,000.00	\$143,235.00	\$530,783.00	\$8,841,755.50
28	86	82	\$15,000,000.00	\$143,235.00	\$530,783.00	\$9,130,544.10
29	87	83	\$15,000,000.00	\$143,235.00	\$530,783.00	\$9,442,435.79
30	88	84	\$15,000,000.00	\$143,235.00	\$530,783.00	\$9,779,278.81
31	89	85	\$15,000,000.00	\$143,235.00	\$530,783.00	\$10,143,069.27
32	90	86	\$15,000,000.00	\$143,235.00	\$530,783.00	\$10,535,962.98
33	91	87	\$15,000,000.00	\$143,235.00	\$530,783.00	\$10,960,288.17
34	92	88	\$15,000,000.00	\$143,235.00	\$530,783.00	\$11,418,559.39
35	93	89	\$15,000,000.00	\$143,235.00	\$530,783.00	\$11,913,492.30
36	94	90	\$15,000,000.00	\$143,235.00	\$530,783.00	\$12,448,019.84
37	95	91	\$15,000,000.00	\$143,235.00	\$530,783.00	\$13,025,309.59
38	96	92	\$15,000,000.00	\$143,235.00	\$530,783.00	\$13,648,782.52
39	97	93	\$15,000,000.00	\$143,235.00	\$530,783.00	\$14,322,133.28
40	98	94	\$15,000,000.00	\$143,235.00	\$530,783.00	\$15,049,352.10

WHAT DETERMINES THE BENEFITS?

The benefits of Deferred Premium Schedules are a function of many factors, including:

- *Size of the taxable estate (the larger the estate, the larger the taxes due)*
- *Future growth rate of the asset that is gifted to trust (the higher the rate, the more growth can be shifted to trust)*
- *Lifetime Exemption Amount available for Gifting (this amount is periodically changed by Congress)*



PH Robb
PRIVATE CLIENT ADVISORS

PHROBB.COM | INFO@PHROBB.COM | (520) 885-5155

