



Policy Audit of Current Insurance Life Insurance for Estate Liquidity and Wealth Transfer

Client challenge

A husband and wife, ages 67 and 62, had a \$4,000,000 survivorship whole life insurance policy, managed by a trust company, that had not been reviewed since its purchase 15 years earlier. Over the 15 years, the clients' estate had grown significantly and they were in need of additional coverage. The clients and their trustee asked GK to review the existing policy and to make recommendations.

GK Analysis

GK performed a fiduciary review on the current policy and discovered the following key elements:

- The annual premium of \$26,000 was not scheduled to “vanish” as the clients were initially told.
- The clients were rated as standard non-smokers.
- The cash value was \$800,000, yet the death benefit had not grown from the initial \$4,000,000 (thus, the policy was not leveraged very well).
- The policy had very weak guarantees.

By benchmarking the current policy against newer policies available in the market, we found that an additional \$2,000,000 of coverage should be attainable under the same standard medical classifications and for the same premium outlay. This represented an additional 50% of coverage at no incremental cost.

Results

Trustee and clients agreed to proceed with a preliminary underwriting process to obtain formal offers. Due to our strong relationships with the carriers, we successfully obtained new insurance coverage in the amount of \$6,500,000 at preferred rates for both clients with the same premium outlay. The new policy was guaranteed.

Summary

- **Trustee fulfilled fiduciary duty:** According to the Uniform Prudent Investor Act (UPIA), a trustee shall invest and manage trust assets as a prudent investor would, by considering the purpose, terms, requirements and other circumstances of the trust.
- **Death benefit increased by 62.5%:** By using an independent firm like GK, trustee and clients were able to survey the entire market to obtain the best offer from the best carrier. Clients' coverage increased by 62.5%, from \$4,000,000 to \$6,500,000, at no additional cost.
- **Improved health ratings:** Due to GK's leverage and volume with the carriers, clients qualified for better health classifications, thus receiving lower internal mortality costs.
- **Certainty/guarantees:** By using a new “no-lapse” universal life policy, the premium and death benefit are guaranteed as long as premiums are made in a timely matter.