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Estate planning

Is your life insurance policy keeping up with life's changes?

If the balance of power in your store is shifting, some updates may be in order.

A Southern auto dealer in his late seventies had pretty much retired and his son was running the operations. The father had already transferred most of the dealership stock to the son. Things were running smoothly – if you didn't look at the life insurance scenario.

The father had 27 different life insurance policies – yes, 27 – and was covered for between \$10 million and \$12 million. The policies ranged from a \$1,000 death benefit to a policy in excess of \$4 million. They had been purchased along the way, but no one had looked closely at them recently. The little ones could no longer be considered life insurance because their cash surrender values now exceeded the original death benefits. The father had also been in poor health for some time.

On the other hand, the son had just \$9 million of coverage, some of which was inappropriate for his needs. What's more, the dealership corporation was loaning his daughters money each year to pay the premiums on their father's coverage; this way they would have enough cash at his death to cover the projected estate taxes.

“Both the (senior) dealer and his son's insurance programs were ex-

tremely confusing and much too expensive for the benefits being provided,” says Tony Freeman, president of Premium Advisors, LLC, a fee-based life insurance advisory firm headquartered in Chicago.

Mr. Freeman told the dealership's attorney that the son needed a more cost-effective type of policy and he agreed. Premium Advisors showed the son how to obtain \$20 million in coverage at a cost far below what he had been paying for the \$9 million. The son kept two term policies and all his other policies were surrendered for a total of \$1 million in cash. This tax free transaction enabled the son's daughters to pay off their loans to the dealership and provided the business with additional working capital. It also reduced the son's outlay for life insurance by \$45,000 to \$50,000 a year, Mr. Freeman told us.

To help the son and his son-in-laws, who were also in the business, Mr. Freeman showed them how to set up a life insurance agency using his Dealer's Participation Program. The program enabled them to receive all the commissions and fees normally paid to an insurance agent.

Mr. Freeman, who previously worked in the estate planning field

and had a pension consulting firm, spends a lot of time talking with clients to figure out their life insurance needs. Some questions he asks:

- ▶ What have you done to make sure the business is kept for your family?
- ▶ How do you plan to equalize inheritance for children not in the business?
- ▶ Are there specific reasons why you bought your coverage and are they still valid?
- ▶ How could the business conduct itself if there are not enough cash reserves to keep debtors away from the door?
- ▶ Do your banks require you to have a certain amount of life insurance?

With life insurance, bigger is not always better. If you've done a lot of tax planning and transferred assets out of your estate through gifting, you may not need big coverage; perhaps you could use a good solid reserve fund, says Mr. Freeman. If you don't need your coverage but would like the cash, it may be best to sell your coverage – something known as a “senior settlement.” For more information, contact Tony at 312-807-3700 or tony@pa-llc.com. ❖

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