



## Case Study | The Crane Family

### RESOLVING THE RISKS OF ESTATE LIQUIDITY AND ADVISOR LIABILITY

#### BACKGROUND:

A prominent investment advisor, with over \$800 million in assets undermanagement performs semi-annual and quarterly meetings with his top clients. He is fully aware of the dangers that may exist within many of his client's estate plans. He possesses the necessary life insurance licenses; however, does not have the time and expertise to properly analyze life insurance policies or the current state of the industry. He is concerned that making incorrect assumptions and recommendations may create more problems for his clients and expose his practice to liability.

- If he is aware of a lack of liquidity within the client's estate, does he have any fiduciary responsibility to his client's heirs? If so, how can he mitigate that?
- Life insurance clients purchase prior to engaging him may not be performing as originally projected. How can he determine that?
- How can he verify the stability of a client's life insurance policy to meet its intended goals?



## THE SITUATION:

Here is an example of how collaboration provided value to the client, his family, and the advisor through the review of the client's life insurance portfolio.

### *The Crane Family*

Mr. Crane is a widower who is 61 years of age, with a current net worth of approximately \$15 million, including a home that has been put into a QPRT, which is projected to mature in two years. The majority of his net worth is invested in illiquid assets including the property in the QPRT. Mr. Crane had been gifting \$33,000 annually in aggregate to his three sons and did not wish to expand his gifting to include spouses or grandchildren.

Mr. Crane's sons jointly own a \$2 million whole life insurance policy with present cash surrender value of \$400,000. The investment advisor and Mr. Crane were interested in a guaranteed death benefit.

## THE SOLUTION:

After completing the analytic assessment on the existing life insurance policy, it was determined the \$2 million of coverage would only remain in force for another three years without additional premium payments. At that time, the death benefit would lapse and the cash surrender value would be refunded to the owners of the policy.

In addition, based upon the computation of the estimated taxes due on Mr. Crane's \$13 million estate (\$15 million less the QPRT), it was determined that at least \$6 million of life insurance was required for estate liquidity. However, the client was not interested in funding roughly \$70,000 more annually to pay for a new life insurance policy.

Mr. Crane was advised that in two years, he would be required to pay rent to his three sons for the property that was placed into the QPRT. The after tax proceeds, net of depreciation, would fund almost the entire additional annual premium required to purchase and maintain the \$6 million of guaranteed death benefit. This satisfied both Mr. Crane and his sons. The coverage was acquired, resolving the issues of liquidity.

**One year later**, IDC proactively renegotiated an improved underwriting offer on the \$6 million of coverage, changing the policy from a standard to a preferred premium rate schedule. This saved Mr. Crane's son's approximately \$24,000 (25%) annually in premiums. With a life expectancy of 80 years of age, the total estimated savings is approximately \$432,000, plus use of these funds.

This led the investment advisor to establish an ongoing relationship with The Insurance Design Center, thus providing his clients and his practice with the expertise required to effectively manage life insurance assets, reduce the risk of adverse financial consequences for his clients, and mitigate the risk of litigation for his practice.

Learn more at:

[InsuranceDesignCenter.com](http://InsuranceDesignCenter.com)

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