



Case Study

The Johnson Family

REFINANCING LIFE INSURANCE TO REPAY A SPLIT DOLLAR LIABILITY

BACKGROUND:

In early 2006, a trust and estate attorney working with a high net worth client required a review of a split dollar arrangement that was implemented prior to the advisor's engagement. The attorney was concerned with the complexity of the arrangement which included eight separate underlying policies, the cost and performance of these contracts, and the outstanding obligation for his client in the split dollar arrangement.

The advisor had the following questions:

- How were the underlying policies performing?
- What are the client's options and risks?
- Was a solution possible given the client's medical history?



THE SITUATION:

Here is an example of how a proactive attorney's action provided cash flow for an existing business and improved the overall liquidity of their client's estate.

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Mr. Johnson was 75 years of age. His irrevocable trust owned \$18 million of individual life insurance (composed of seven universal life policies and one whole life policy) with MetLife, at a premium cost of approximately \$625,000 annually. These policies were originally purchased to fund a split dollar agreement with his company. \$3 million of the cash value was owed back to the company for funding the split dollar arrangement. All of the universal life contracts were severely under-performing the market, and would require significant premium increases to maintain them at their current level of death benefit. The whole life policy was performing well but without the universal contracts, would have been saddled with the entire split dollar obligation. Underwriting for replacement coverage was complicated due to medical conditions involving cardiovascular surgery eight years prior to this review.

THE SOLUTION:

Through negotiated underwriting, Mr. Johnson was insurable at standard rates, and a single \$15 million guaranteed universal life insurance contract was secured at a cost of \$550,000 in annual premium. His trustee then surrendered the seven failing universal life policies and, using the resulting cash surrender value, repaid the company \$3 million to eliminate the split dollar obligation. The repayment provided the company with a windfall of unanticipated cash flow.

Additionally, the new policy was paid for and owned by a heavily funded irrevocable trust and therefore resides outside of Mr. Johnson's estate, exempt from gift taxation and guaranteed for life.

Two years later, IDC went back to underwriters at several insurance carriers and renegotiated preferred rates, which enhanced the original solution; increasing the death benefit to \$17 million for a cost of approximately \$540,000. In addition to having the use of a larger death benefit at a lower cost, the client and his family were thrilled with this affirmation of his recovery and good health.

Learn more at:

InsuranceDesignCenter.com

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