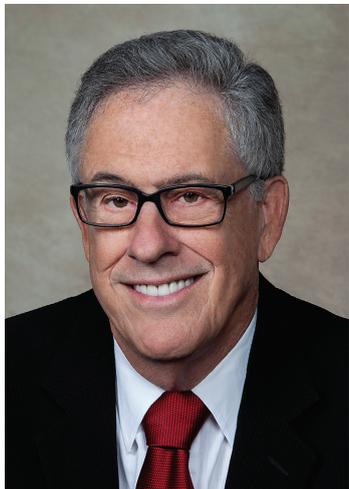


Strategic Positioning with Life Insurance

Make Life Insurance Work for you While You're Alive



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Even billionaires need insurance policies (40 billionaires claim **dual residency** here in South Florida, according to the 2016 *Forbes' World's Billionaires* list) to protect their vast assets, massive homes, golf courses, businesses and huge liquidity needs.

The record for the largest insurance policy ever purchased was for \$201 million dollars, bought by an unnamed Silicon Valley billionaire and confirmed by the *Guinness Book of Records*. The amount of the policy necessitated it being underwritten by 19 different insurers.

It may be puzzling why an uberwealthy individual would buy a life insurance policy of that size. Wouldn't his or her heirs have enough money? We understand the strategy since we sold the first \$100 million plus life insurance policy in the state of Florida over a decade ago. It's simple — estate planning and taxes.

Many wealthy individuals have been securing loans, which are not taxable, to take advantage of low interest rates before they rise any further. These loans are due immediately to be repaid in full upon the borrower's death. An untimely death can force the purchaser's estate to liquidate assets at an inopportune time to raise enough money to pay off leveraged loans, business expenses and other debts including income and estate taxes. Federal taxes alone may eat up to 45 percent of an heir's inheritance. Also, most wealthy individuals have their estates tied up in hard assets and may not have the liquidity immediately available to pay such a large tax bill. Life insurance can provide the money to pay off the tax obligations rather than liquidating more valuable growth and income-producing assets.

Frequently when talking about the benefits of life insurance for entrepreneurs and businesses, we share the stories of famous brands started or saved by life insurance. Walt Disney after failing to secure financing for the building of his dream amusement park Disneyland, collaterally borrowed a large part of it from his cash value life insurance policy. James Cash Penney, the founder of retail giant J.C. Penney, borrowed

against his cash value life insurance policy to keep his company afloat when the Great Depression left his company in financial ruin. Entrepreneur Ray Kroc, Founder of McDonald's, borrowed money from two of his cash value life insurance policies to help overcome cash flow problems, to pay his employees and to start his Ronald McDonald advertising campaign.

Yes, the ultra-wealthy indeed purchase vast amounts of life insurance, but it's not billionaires who purchase the most. You might be surprised to learn the largest buyers are banks and large corporations. Many banks often choose to make insurance a significant percentage of their "top-tier" capital and rely on it as a means to withstand financial turbulence (see our February 17th article).

Top life insurance companies, despite economic turbulence, have maintained top-tier ratings such as MassMutual, always paying death benefits since 1851. In short, insurance policies offered by major life insurance companies have been a good, safe investment when backed by the general account of the life insurance company and protected by state guarantee funds (which vary by city and state).

In addition, earnings from a life insurance purchase provide tax benefits that don't come with a traditional investment. The savings and earnings in these policies grow tax-deferred, while loans like the one Penney took out on his policy are not taxed as traditional income. If it is structured properly, it becomes a spread loan and you become your own bank. A death benefit when paid out, will go to your beneficiaries' income tax free and if set up properly, estate-tax free. Would you rather leave your hard earned money to the government or to your heirs? If the policy is purchased at the right time, there is also the possibility the policy is creditor resistant or creditor proof.

As the summer approaches and the social season winds down, now is a good time to review your insurance portfolio for a thorough review and assessment. Planning is key to maintaining one's prominence in the ever-changing financial and legislative environment. When considering any sophisticated planning concepts, seek the help of qualified tax attorneys and insurance advisors. Properly structured, these strategies can go a long way towards maintaining your family's lifestyle for generations. Let us put our years of expertise, knowledge and experience to work for you. Call our experienced advisors at 561.689.1000 for your confidential consultation.

Arthur L. Bernstein is instrumental in new group/employee benefits development and individual life insurance planning at Richard S. Bernstein & Associates, Inc. He assists corporations to expand their current revenues while creatively exploring additional methods to reduce insurance costs. You may contact him at 561.689.1000 or e-mail him at arthur@rbernstein.com.

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