101 Things to Do with Insurance

Don't make the mistake of thinking insurance issues are just for middle-income clients.

By Joseph Finora

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November 11, 2004- Today's wealth adviser has to help clients protect and preserve what they've often spent a lifetime earning. And while insurance has traditionally been used to help provide basic financial protection, it now plays a key role helping high-net-worth individuals protect family and business interests. Although historically this was a male issue, as women have become serious wage earners, the also have developed complex insurance needs. No matter the sex or age of their clients, today's wealth managers have to be insurance advisers as well.

"If you're primarily focusing on investments for high-net-worth accounts than you're overlooking a valuable asset-protection and estate-planning vehicle," says Bob Enright, a wealth manager in San Francisco. "Insurance has advanced considerably and has numerous wealth- management applications."

"Insurance is the fundamental building block of financial planning," says Joseph Ventura of William Tell Financial Services in Latham, N.Y. "High-net-worth individuals are not and should not be exempt from the basics that helped them become high-net-worth men and women." In addition to life insurance, property and casualty umbrella policies and long-term care, Ventura frequently provides second-to-die life contracts, a single-policy product that covers two lives to pay estate taxes when the second spouse dies. With second-to-die, a married couple leaves its assets to each other as spousal transfers, which are not subject to estate tax. Upon the death of the surviving spouse, the estate tax is paid by the insurance. It is often more efficient to purchase one policy to be paid when the last person dies instead of two policies -- one for each life.

"Insurance is a tool to shift risk," says Neal Frankle of Wealth Resources Group in Woodland Hills, Calif. "Estate tax can be a considerable risk especially when individuals have much of their net-worth tied up in real estate or a business."

Individuals selling real estate that's substantially appreciated could realize a huge capital gain, and the asset would still be part of their estate. In certain circumstances it can make sense to "gift the property now and receive a tax break for its market value. The write-off provides immediate income which can be used to buy insurance to replace the assets when the donor dies," says Frankle. The benefits to this strategy are:

- you've helped a worthy cause

- you've removed a substantial amount from your estate
- your heirs will receive a substantial amount effectively free from estate and income tax
- you've created a huge tax savings for yourself

Going Corporate

Many employers must reconsider the value of group term life insurance for highly compensated employees. The benefits of a properly structured life insurance plan have frequently made them a better choice than term plans for key employees. These plans can also help attract, retain and reward top-level talent. Advisers can develop strategies that use corporate assets to fund estate-planning or wealth-transfer scenarios.

"One of the more interesting applications with executive compensation versus traditional business planning is the synergy that most financial professionals fail to recognize," notes Enright. "Modern Corporate Owned Life Insurance (COLI) products offer significant financial advantages to any firm's current balance sheet," he says. "These products come in many flavors, but almost all COLI strategies utilize special variations of variable universal life contracts not available in the general retail market. These allow a future cash flow neutral transfer of value to key executives and are only utilized in corporate environments by a small group of specialty vendors."

The Endlessly Evolving Annuity

Equity-indexed annuities (EIAs) have added a new wrinkle to a category that has contained only fixed- and variable versions seemingly for generations. Among other things, EIAs allow individuals to participate in upside potential of a selected index, usually the Standard & Poor's 500, but also avoid downside risk. And like most fixed annuities, equity-indexed annuities use a formula to pay a minimum interest rate based on changes in the index to which it is linked. An EIA typically appeals to a risk-averse investor unhappy with traditional investments such as certificates of deposit and are often ideal because principal is protected. Most feature an upper limit or cap on the index-linked interest rate, creating a maximum interest rate it can earn.

Planners should remind their clients (and themselves!) that while there are many great insurance products, the real value for the client is the advice that comes with them.

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