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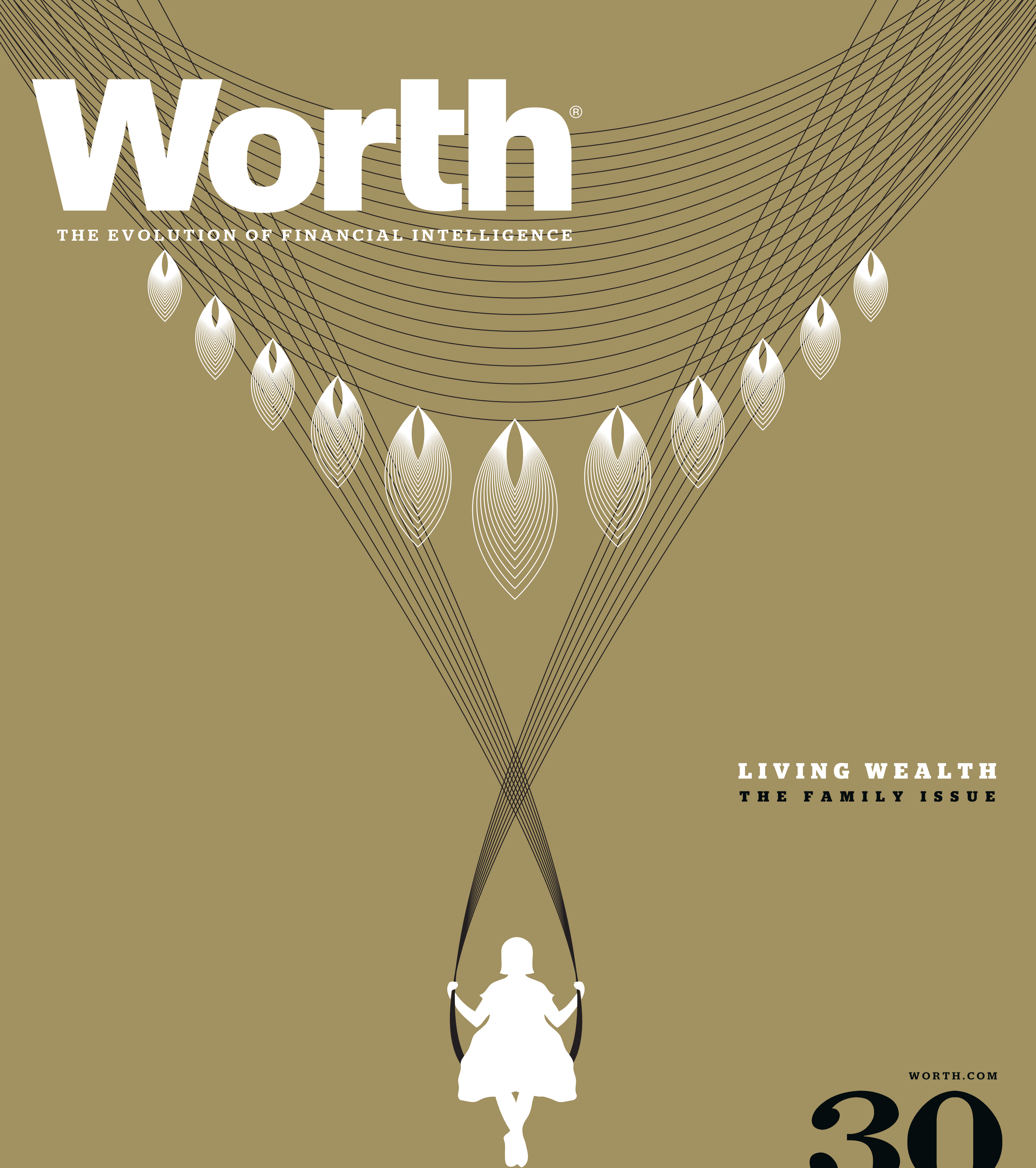

LIVING WEALTH
THE FAMILY ISSUE

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LLBH Private Wealth Management LLC

Kevin Burns, Partner; Bill Loftus, Partner; Bill Lomas, CFP®, CIMA®, CRPC®, Partner; Jim Pratt-Heaney, CIMA®, Partner; Michael Kazakewich, CFP®, CRPC®, Partner

"What can go wrong when insurance policies are not regularly reviewed?"

By Bill Lomas and Michael Kazakewich

Insurance can play an integral part in a well-developed wealth management strategy. It may serve the purpose of income replacement, liquidity for final expenses and estate taxes or the creation of a financial legacy for heirs. However, once insurance policies are purchased they are rarely reviewed, and the unintended consequence may be increased premiums, reduced benefits or inadequate coverage.

The primary reason to review policies is to confirm the coverage type and amounts are still sufficient for the intended purpose. Changes to an individual's financial situation should be assessed within the context of the existing coverage amounts. A review should also be an opportunity to check the pricing of the policies relative to the coverage.

TITLING

Reviewing insurance plans helps policy owners avoid issues that may arise which may impact the intended outcome. For example, it is common for policies to be purchased with the intention of having an irrevocable life insurance trust (ILIT) as the policy owner. This strategy avoids including the proceeds in the decedent insured's gross estate, where they are subject to estate taxes. However, frequently those policies have not been assigned to the ILIT and instead have the insured listed as owner. As a result, what should have been tax-free proceeds to the ILIT wind up diminished by the effects of estate taxes. But even if the policies have been correctly transferred to a trust as owner, in some instances we see the insured mistakenly paying the premiums from their personal accounts. This simple act of paying the premiums with personal assets may be viewed as an "incidence of ownership," again causing the ultimate proceeds to be included in the decedent's gross estate, and therefore making them subject to taxation.

SUSTAINABILITY OF PREMIUMS

Titling is not the only aspect to assess when reviewing insurance policies: Insurance companies calculate the premiums for policies based on factors like assumed rates of return. Over time, these rates used in policy illustrations may change—which is prevalent given the interest-rate environment of recent years. Why is this important? If insurers cannot continuously meet or exceed the rates used in their pricing illustrations, the insured may have to absorb the additional cost required to maintain the policy. Increased premiums, particularly as the insured ages and the cost of insurance rises, can become a burden to maintaining the policy. In some instances this burden forces the insured to reduce the death benefit, and in turn the premium amounts, to keep them viable. For this reason, it is important to periodically request in-force illustrations from the insurer. This "check-up" confirms the policy is in good financial shape and the premiums are sufficient for maintaining coverage given current assumptions. Check-ups help avoid the surprise of increased premiums, or at worst, prepare for them.

POLICY LOANS

A frequent issue we see when policies are not periodically reviewed is the presence of a policy loan. When policies build cash value, some individuals choose to have the premiums paid against the value. In some instances, if the policy owner forgets to make the annual premium payment, the policy may automatically borrow against the cash value to pay the premium and keep the policy in force. The danger is that, over time, if this happens repeatedly, the policy loan erodes a substantial portion of the policy, and the ultimate death benefit is less than the insured had intended, and an even bigger surprise to their heirs.

Though often neglected after the initial purchase, policy reviews provide the peace of mind that the coverage and cost are still appropriate within a family's financial blueprint.

"Once insurance policies are purchased, they are rarely reviewed, and the unintended consequence may be increased premiums, reduced benefits, or inadequate coverage."

—Bill Lomas and Michael Kazakewich

How to reach Bill Lomas and Michael Kazakewich

We look forward to discussing how LLBH can help you reach your financial goals. We can be reached directly at 203.683.1530.

Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

ILLUSTRATION BY NANCY JANUZZI

About LLBH Private Wealth Management LLC

LLBH Private Wealth Management is an independent Registered Investment Advisor (RIA) which works with a select number of clients seeking a highly personalized level of service. Through an intensely thorough process, LLBH delivers a comprehensive suite of wealth management solutions tailored to the specific needs of its clients, including financial planning, asset management, concentrated stock hedging, lending, cash management, alternative investment due diligence and family office services. Founded in October 2008, LLBH is based in Westport, Conn., with offices in Greenwich, Conn. and Santa Barbara, Calif., the latter of which focuses on the firm's significant West Coast presence in the entertainment industry.

Assets Under Management
$1.5 billion (as of 4/30/2014)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (investment services)

Largest Client Net Worth
$1 billion

Financial Services Experience
200 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing, A BNY Mellon Company

Professional Services Provided
Financial planning, asset management, concentrated stock hedging, lending, cash management, alternative investment due diligence and family office services

Association Membership Financial Planning Association, Investment Management Consultants Association

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