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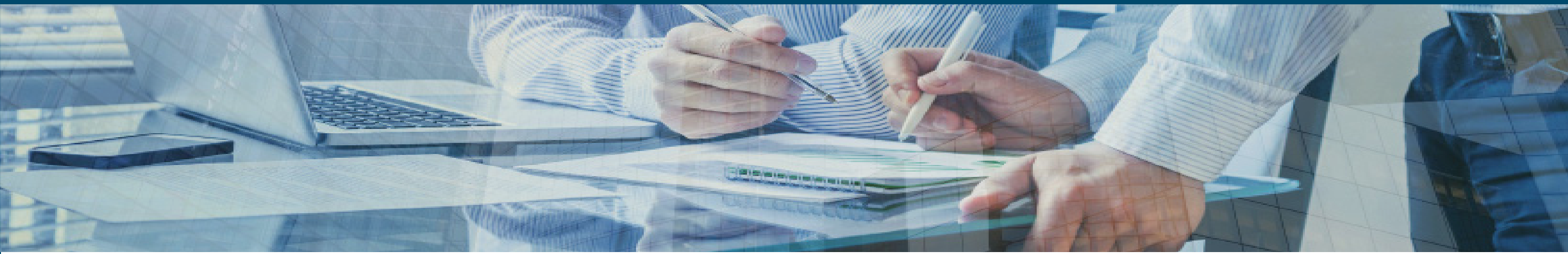

Financial Underwriting Tips in the Estate Market

The One Big Beautiful Bill Act of 2025, which was signed into effect in July, brought much needed permanence to the estate, gift, and generation skipping transfer tax (AKA transfer taxes) exemption. The biggest issue with not having a permanent federal transfer tax exemption was that it made estate planning unnecessarily complicated. Accordingly, for many years, estate planning attorneys have had to grapple with how to navigate the possible sunset. Some clients decided to take a wait and see approach, while others created plans designed to maximize their exemptions should the law sunset.

Now that the transfer tax exemption is permanent, at least until changed by a new administration, it's time to revisit your high-net-worth clients. Those clients who were on the fence because of the uncertainty might be willing to move forward with their estate plans. As a result, it's important to refresh ourselves about how to package an estate case from a financial perspective to achieve a "yes" from an underwriter. The following are ten tips that can help you position your estate planning cases.

1. **Describe the "Big Picture."** The estate plans of families with significant wealth are often complex; frequently involving distributions to multiple generations through numerous trusts and business entities. To provide clarity to the underwriter you need to paint the "big picture." Of course, part of this description should include an explanation of the estate objectives. It's also helpful for an underwriter to have an understanding of the "family tree." Finally, the policy structure (insured, ownership, and beneficiary designations) often requires an understanding of trusts/business entities established by the family- so you must make sure you provide sufficient details about these entities for the underwriter to "make sense" of the structure.

2. **Provide a Net Worth Statement.** Problems often occur because of insufficient financial data. This is especially true for clients with significant wealth because of the wide variety of assets that they frequently own. You should try to provide a complete net worth statement, including any business interest, benefit plans (qualified and nonqualified), interests in trusts, patents, royalties, mineral rights etc.. You may find that some clients will only want to provide the minimum amount needed to justify the amount requested. While it's possible to achieve financial justification based on a less than complete net worth statement, you will want to make sure that the statement is large enough to justify both the existing coverage as well as the amount "applied for." Be aware that carriers will require that the financial documentation come from an independent third party when the insurance face amount is over a specific amount (amount varies by carrier).

3. **Be Consistent.** The application, cover letter, and supporting data should all tell the same story. Conflicting numbers and statements need to be explained. Build your strengths, but don't hide the negatives – explain them.

4. **Reveal Team.** When working with client's attorneys, CPAs, and other advisors you will want to reveal their involvement in the planning process. This will provide independent credibility.

5. **Provide a Clear Statement of the Life Insurance Purpose and the Owner/ Beneficiary Structure.** As indicated above, in the estate market life insurance sales generally fall into one of the following categories: estate liquidity, cover IRD (income in respect of decedent), charitable legacy, and dynasty trust. Clearly identify the purpose(s) that the life insurance policy will serve. Remember, there can be more than one need for the insurance. Be careful that the ownership/beneficiary structure you propose is consistent with the estate objective. Be aware that while it's possible to have a business as an ownership/beneficiary, in an estate case you will need to provide the underwriter an explanation of how the arrangement will work because this structure can be misunderstood as a business case.

6. **Be Clear on How the Face Amount was Determined.** If the amount you are requesting is outside the normal guidelines, realize that you will have to include supporting facts as to why the normal parameters should be stretched for your particular case.

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7. **Estate Liquidity Coverage.** The face amount of coverage is typically based on an estimate of federal and state death taxes and expenses that will be incurred.

   - Reasonable growth in estate assets in the range of 4%-6% for 10-15 years is usually acceptable, but will be adjusted down for older/impaired insured. Higher growth rates are possible, but additional explanation and documentation is often required. This will typically result in an estate tax liquidity need equal to your client's net worth.
   - Future inheritances may be included where it can be demonstrated/ documented that an inheritance is likely in the near future.

8. **IRD Coverage.** The face amount of coverage is based on the projected income tax expected to be incurred on assets that do not receive a "step-up" in basis at the death of the IRD owner.

   - Assets that do not receive a "step-up" in basis include: IRAs, qualified retirement plans, nonqualified SERP/deferred compensation plans, annuities, stock options and other forms of earned income.
   - Underwriters consider the age of the client and the expected accumulation time horizon when determining the amount of IRD coverage that makes sense. If the client is in the IRD payout period (i.e., minimum distribution period) only a portion of the current IRD will be covered.
   - Just because the income stream produced by the IRD assets results in the ability to purchase a specific face amount of insurance does not mean that is what an underwriter will approve. Typically, face amounts equal to 30%-40% of the IRD assets can be acquired.

9. **Charitable Legacy.** There are several ways life insurance is used in charitable planning. Consequently, a description of the underlying charitable technique will be critical in the underwriter's assessment of the face amount of coverage.

   - **Wealth Replacement Trust for Charitable Remainder Trust (CRT).** Often life insurance equal to the value of the assets transferred to the CRT can be acquired.
   - **Charitable Legacy.** Making a gift of a life insurance policy to a charity is an appealing planning strategy because the donor is able to make a gift without reducing his/her estate depriving his/her surviving spouse or family of an inheritance. Depending on state laws, the gift can be structured in one of the following ways: transfer of an existing policy, payment of premiums on a policy owned by a charity, and charity as the beneficiary of a personally owned policy. Carriers have guidelines, some are very restrictive in the face amount of coverage they will permit. Typically, the face amount is limited to a multiple of prior average annual donations times the donor's life expectancy. Other words, for most carriers they will ask about the insured's history of charitable giving. This giving amount is not limited to cash contributions. It can include value based on services provided to the charity. They will also want to make sure the insured's family has been provided. Where the donor has significant wealth, larger face amounts are possible, but additional explanation will be required to demonstrate why it "makes sense."

10. **Dynasty Trust (GST Trust).** The face amount of coverage is usually based on the expected estate liquidity needs of the insured.

    - The underlying reason for acquiring life insurance in a GST trust is to leverage the exemption amount. Consequently, the sales approach usually focuses on the potential leverage provided by the internal rate of return on death benefit. This kind of presentation will often meet with resistance from underwriting where the focus is on insuring "loss." So, while the sale may be closed on the basis of leverage, you will need to tie the face amount requested back to an insurable loss.

In Summary: Before you send your estate case off for review by the carrier ask yourself will the underwriter be able to "make sense" of the face amount requested, the ownership/ beneficiary structure and the funding arrangement? Where the plan is a little bit unusual take care to provide details as to why it "makes sense." If you need help in developing a cover letter the DBS Advanced Sale area will gladly assist.

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