2021 Planning Opportunities

by Terri Getman, J.D., CLU, ChFC, RICP AEP (Distinguished)*

Insurance Financing Options for Clients Who Have Used Their Gift Exemption Amount

2021 presents a unique opportunity for individuals to accomplish significant transfer tax planning. The reasons for this include the following:

- An individual can currently transfer $11.7 million of property without gift, estate, and generation-skipping taxes.
- The current top transfer tax rate is 40%.
- Several strategies utilize interest rates that are at historic lows.

However, the heyday for gifting could be coming to an end this year. A number of legislative proposals would reduce the amount that can be gifted without being subject to tax. This would also limit several transfer planning techniques like short-term GRATs, generation-skipping transfer trusts, and valuation discounts.

Some of your high-net-worth clients with large estates have likely been working with their legal and tax advisors to take advantage of this unprecedented opportunity to make large, tax-free transfers. Many of these clients will still have taxable estates after the transfer - so they continue to have a need for life insurance. While these clients have the assets and the liquidity to pay for the life insurance they need, they could lack enough annual exclusion gifts and/or gift tax exemptions to get the premium into an Irrevocable Life Insurance Trust (ILIT) without having to pay gift taxes. And while money is no object when it benefits their heirs, benefiting the government is another story.

How can you help your wealthy clients fund their ILITs without incurring gift taxes? The chart below summarizes some of the options available to fund a large life insurance need.

	Private Split Dollar	Private Financing	Premium Financing
Lender	Mom/Dad	Mom/Dad	Bank
Description	Trust pays annual term costs or Table 2001; Mom/Dad pay the balance of the premium[1]	Intra-family loan transaction	Third-party lender provides loan for purchasing life insurance
Loan Interest Rate or Annual Cost of Financing	Economic benefit cost	Applicable Federal Rate (AFR): Short-term (0-3 yrs) Mid-term (3-9 yrs) Long-term (9+ yrs)	Typically LIBOR + spread
Gift Tax Impact	Minimizes gift taxes because only the term cost is the gift	Minimizes gift taxes because loans are NOT gifts	Minimizes gift taxes because loans are NOT gifts
How It Works	Mom/Dad provide	Mom/Dad as lender provide liquidity to pay large premiums	Bank loans funds to pay large premiums
Benefits	Minimizes gift tax costs	Minimizes gift tax costs	No need to liquidate assets to fund premium payment
Collateral	Policy	Not required but may be advisable	Policy and/or other liquid assets

How DBS Can Help

For more information on how your wealthy clients can benefit from a gifting strategy, call DBS's in-house advanced sales resource Terri Getman, J.D.*, CLU, CHFC, RICP, AEP (Distinguished).

[1] The economic benefit-cost is the measurement for the gift value. This value is based on the death benefit amount and the insured's age. This value can be quite low during their younger ages, especially when a survivorship policy is used. However, the economic benefit amount increases over time as the insured ages and when a survivorship policy changes from a joint-life to a single-life rate at the death of the first insured. It may make sense to consider a Private Split Dollar arrangement initially and switch to Private Financing when the economic benefit rates get too high.