Multi-Generational Planning with Wealthy Elderly Clients During the Coronavirus

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We're focusing this month on the Silver Lining of the current business environment, and one of the biggest opportunities to present itself is estate planning. A recent case illustrates how DBS was able to provide a "creative solution."

THE SITUATION

A financial professional called DBS seeking estate planning advice for a very wealthy widow. The client had previously used most of her estate tax exemption and was still in "good" health . . . that is for a person 87-years old.

THE PROBLEM

Carriers have a maximum issue age which for most carriers age is 90. However, today because of the Coronavirus most carriers are either not accepting applications from older age insureds with health impairments or delaying them until a future time when the virus is not as much of an issue. Of course, individuals with significant health issues generally cannot qualify for life insurance coverage. The financial representative wanted a "creative idea."

THE SOLUTION

The DBS in-house Advanced Marketing Attorney suggested that the financial professional might want to have his client consider multi-generational insurance planning. Specifically, it was explained that while the estate and gift tax rates are both the same at 40%, a wealthy client can save a significant amount in taxes by making lifetime transfer of gifts that are subject to gift taxes instead of holding on to the property and paying estate taxes. The following example was provided:

If Left in the Estate:		If Transferred as Gift	
Value of estate (tax base)	9,000,000	Value of gift (tax base)	6,428,571
Estate tax: (Tax base X rate)	3,600,000	Gift tax: (Tax base X rate)	2,571,428
Net transfer to heirs	5,400,000	Net transfer to heirs	6,428,571

Assume assets available to transfer either by gift or left in the estate equals $9,000,000.

In addition to the above federal tax savings, the DBS associate pointed out that several states have "death taxes," but do not have gift taxes. In fact, only one state, Connecticut, has a gift tax. The client happened to live in one of the states that has a death tax, but no gift tax. A lifetime gift will not trigger state gift taxes, but if the asset is held at death there will be state tax on top of the federal. Consequently, a lifetime gift will generate more tax savings than illustrated. The DBS attorney did indicate that there is one catch: the client must live 3 years from the time of the gift to gain the benefit. Given today's precarious circumstances, the client's advanced age, and the depressed value of many assets, she suggested it would be best to do the gift "ASAP."

Next the DBS attorney explained that the over 1 million in tax savings could be leveraged by the children of the 87-year-old purchasing insurance on themselves to address their estate taxes.

THE RESULT

While the financial professional is still early in the process, it appears that the client's legal advisor loves the idea. The financial professional is in the process of developing a new relationship with the next generation… one that he hopes will result in new financial planning clients.