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Innovative policy targets wealthy clients

By Gary S. Mogel
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NEW YORK — Advisers with clients who need life insurance for tax minimization and wealth transfer may want to consider a new policy geared to that market.

The policy — which combines the tax-free death benefits of life insurance with the tax-deferred growth of annuities — was announced last month and is "mainly for affluent clients with several hundred thousand dollars tied up in annuities," said Bill Campbell, chief marketing officer of Future System Advisors LLC in Baton Rouge, La., which developed the actuarial model.

"Dying without spending that annuity money — that's not a good place to be because of the income-tax consequences," Mr. Campbell said. The actuarial model designed to remedy that problem has a patent pending and is "the first new model since universal life," he added.

The main advantage of the new policy, which was co-developed with, and is being underwritten by, Symetra Life Insurance Co., is that the death benefit amount is adjusted daily. This method minimizes the expense of maintaining the policy and maximizes its cash value, said Rich Lindsay, the Bellevue, Wash., insurer's senior vice president for life and annuities. The death benefit is calculated as a ratio to the cash value and is based mainly on the age of the client.

The policy is the first one in the market that makes the death benefit calculation on a daily basis, Mr. Lindsay added. Policies that calculate the death benefit less frequently can be a significant drain on investment balances, he noted. "This new method allows clients to have more-efficient, tax-deferred asset accumulation," Mr. Lindsay said.

Intended for clients in the 45-to-75 age range with $2 million to $5 million in transferable assets, the policy has a $25,000 minimum premium. But the eligibility requirements are flexible, Mr. Lindsay noted. The policy has been approved by insurance departments in about half the states and other approvals are expected, he added.

The actuarial model ensures that the insurance amount always is sufficient under Internal Revenue Code Section 7702 to qualify the policy as an insurance product and to maintain the tax advantage for the death benefit, Mr. Lindsay said. There must be a certain minimum "amount at risk" or death benefit relative to the cash value to qualify as insurance, he added.

"At some point, the Internal Revenue Service could scrutinize the policy, but the actuarial model was designed so that the policy will always meet the Section 7702 requirements," Mr. Lindsay said.

Advisers are both intrigued by the new policy and skeptical about it.

"The policy resembles variable life insurance, with the difference being that death benefits are adjusted more often so that the amount of insurance is minimized and the cash value is maximized," said Lee Slavutin, principal of Stern Slavutin-2 Inc., a life insurance and estate planning firm in New York. Minimizing the insurance amount keeps policy costs down, because many policy expenses are based on that amount, he added.

"All the major variable life insurers do something similar, but with this new policy there appears to be greater flexibility," Mr. Slavutin said.

"The concept looks attractive," said Bradley Teets, president of KDT Investments in Punta Gorda, Fla. "I have, for quite some time, considered life insurance as less important in the estate planning process as IRS estate tax liability thresholds have risen. If something is added to change the way the death benefit is calculated, I would certainly consider offering it to clients who could benefit from the opportunity," Mr. Teets added.

"I'm not a fan of bundled products," said Paul Winter, principal of Five Seasons Financial Planning in Holladay, Utah. "Usually, clients can replicate them much more cheaply, and with more customization to their individual circumstances and objectives, using a combination of cost-effective, tax-efficient individual components."

"I would like to see what the internal expenses for the policy are and how they compare to buying separate life insurance and annuities," said Bruce Brinkman, a financial planner in the Rockford, Ill., and Arlington Heights, Ill., offices of Timothy Financial Counsel Inc., based in Wheaton, Ill. "I'm suspicious when I see products combined."

"I'm in favor of innovation," said Glenn Daily, an insurance consultant in New York. But he added that the policy's details must be reviewed to see whether they contain "the devil" or have merit.