Halliday Private Trust
Integrated Trust Solutions for Clients

Trust Connection

A Monthly Report of Trust News and Information

September 2017

Welcome to *Trust Connection,* our monthly newsletter highlighting Trust news and information. Each month we will feature timely articles of interest.

About Us

At Halliday Private Trust, it is our mission to assist our clients in the process of providing solutions, specifically through a wide range of financial advice.

Since 1982, we have utilized a full spectrum of financial services to help our clients navigate every major hurdle in their financial lives. Because we are an independent financial services firm, we utilize an open architecture approach to locating the most suitable investment options for our clients.

Our role is to help clients make smart decisions about their money. We understand that each client has unique needs and requires personalized solutions based on their goals, objectives and concerns.

The Premature Death of Life Insurance

The role of life insurance is often misunderstood. Perhaps if it were called "Premature Death Insurance" more people would understand and feel comfortable with it.

Since death is inevitable it's important to ask, will there be money available to fund one's obligations when it happens? Immediate cash is often needed for burial costs, paying estate expenses, or taxes. A lump sum of capital could also be required to help pay for family living expenses, business continuation expenses or to pay off debts such as a mortgage.

Life insurance is ultimately an investment but one that works differently from others, which can create confusion. When the average person reviews a life insurance policy spreadsheet, they usually look ahead to their life expectancy and examine the rate of return. It will be a small amount because the return is not the purpose of life insurance. If everyone lived to life expectancy, it would be better to hold on to and invest the money instead of paying the premium. The issue is the risk of premature death. If the policyholder died after making their first premium payment, the return would be astronomical.

A person may need life insurance in order to accomplish one or more of the following:

- Create an estate
- Pay death taxes and other estate settlement costs
- Fund a business transfer
- College fund for children or grandchildren
- Pay off a home mortgage
- Protect a business from the loss of a key employee
- Replace a charitable gift
- Pay off loans
- Equalize inheritances
- Accelerated death benefits
- Spousal insurance
- Supplement retirement funds
- Pension maximization

Continued>>

A LOCAL TRUST SOLUTION

Call us today at (800) 786-1598 to learn more about working with Halliday Private Trust.

For information and assistance, please feel free to contact one of our Trust Advisors:

- Michael F. Fleming, Esq.
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The last few items relate to what one often does with the accumulated savings when they don't die prematurely. Insurance can be used in many different ways by selling it, borrowing from it, withdrawing funds, or exchanging it for another policy or an annuity. This is taking advantage of the forced savings feature when one does not die prematurely and thus sometimes plans change with regard to the sum of capital set aside. This, of course, refers to forms of permanent insurance as opposed to term insurance.

Permanent insurance includes whole life, universal, variable and variable universal, all of which build up cash value over time in a savings or investment feature of the account. Part of the premium pays for the risk of death and the rest is built up inside the policy. Term insurance is pure insurance on the risk of death; it has no savings feature. This makes term insurance cheaper, but if it is needed for life, it will get really expensive. As the name implies, term insurance is offered for a certain price for a certain period such as five years, 10 years or 20 years. Term works well to cover risks that are likely to be outlived, such as having enough money to put the kids through college or handling the liquidity challenges of a family business that one expects to sell with a foreseeable timeframe. Permanent insurance, then, fits needs that are permanent, like having cash to pay estate taxes nine months after date of death without having a fire sale on one's assets or buying out a business partner in a family business that one wants to keep in the family, or providing for ongoing money to pay for the family's lifestyle should a "breadwinner" pass away unexpectedly. These anticipated needs also help define the amount of money necessary to meet the need. Permanent insurance costs can be kept lower by having a second-to-die policy for a married couple when the risk only exists if both parties die.

It is also important to consider the ownership of the policy and the beneficiary. A common misconception arises from the phrase "life insurance is tax-free to the beneficiaries." It is true that it is income-tax-free, but it is usually not estate-tax-free unless the title and beneficiary are set up to address that issue and the client, life insurance death benefit included, would be worth more than the estate-tax-free amount. Special trusts are often used to manage the gifting of premium amounts to many beneficiaries and the purchase and holding of the policy in a manner that will keep it out of the estate of the insured.

Life insurance policies should also be reviewed periodically with a professional who can help to assess the financial strength of the issuer and that the type, cost, and amount of death benefit are still appropriate and competitive in the marketplace. It is, after all, a financial product and, while less liquid than many, since policies can be exchanged tax free for other policies of like value, modifications can be made to make sure the product is competitive and continues to meet the needs of the purchaser.

Reflect on the question: "If I had died yesterday, what would be happening now?" Would there be a need for cash or a lump sum of capital? Is there sufficient insurance or are there enough liquid assets to address that need? Is the amount of insurance held still appropriate and cost effective? Have needs changed, and what alternatives exist to utilize the value in some other manner? Life insurance is an asset – treat it as one.

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