ADVANCED SALES

ALERT

Where is the UHNW Market Trending?

The future's so bright, I've gotta wear shades . . .

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The threat of estate tax repeal, in the background for at least the last 15-years, is now "in our face" and an on again/off again transfer tax environment likely represents the new normal. Clients (and many advisors), confused and thinking that a wait-and-see approach is prudent, will be reluctant to engage in planning; to their and their family's peril. Based on conservative assumptions, the cost of delaying planning for even five or ten years is staggering. Federal, state and local governments will need to find tax revenues, so that over the long term taxes are likely to increase.

Advisors (including us) have to re-tool our messaging away from taxes. The need for planning is just as strong now as it was six months ago. Estate planning is not just or even primarily about taxes, but needs to address all threats-to-wealth: divorce, creditors, predators, protecting children from themselves, and dilution due to repeat taxation and a growing family.

Clients will be reluctant to plan unless they can be shown a tangible benefit for themselves. Therefore, assets will be transferred to and life insurance placed in trusts that benefit the clients directly during their lifetime, including Dual Spousal Lifetime Access Trusts (Dual SLATs), Beneficiary Defective Inheritors Trusts (BDITs) and Self-Settled Trusts.

Carriers have and will continue to experience downward pressure on their investment returns and, with most using portfolio method (versus new money) even if investment returns trend consistently higher it will take years for their portfolios to turnaround. Consequently, no lapse guarantee products will continue to be re-priced with higher premiums and face amount limits or will be eliminated altogether; current assumption products will continue to offer lower returns; and, if only to manage premiums, the market will be driven to strong cash value products including indexed and variable universal life.

Indexed UL, providing greater stability with a guaranteed floor as well as strong upside potential, will be more attractive in the UHNW space. In order to further enhance cash value growth, policies will be designed with the shortest non-MEC premium payments and minimum non-MEC death benefit with corridor driving up death benefit as it rides cash value performance.

As long as interest rates remain low, private financing will be one of the most powerful strategies available. Because it does not involve a gift, it will successfully transfer wealth in any scenario, riding out whatever tax system is in place, be it gift, estate, generation skipping or capital gain at death. It will offer a winning combination when coupled with a strong cash value IUL policy and trusts for the benefit of the clients as well as their heirs.

Finally, there is a good deal of confusion in the community of trust and estate attorneys as well as CPAs, who traditionally are not great marketers. Many are beginning to recognize the power of life insurance and its many benefits including tax favored investment returns, liquidity when needed (anytime!), a hedge against the risk of premature death, and uncorrelated investment returns. We can be a powerful resource to these advisors and help them transition their practices.

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