

The Advisors Guide to Managing Risk...

Why we wrote this book.

ABA 2016

Henry Montag CFP.

It was important to write this book for many reasons, but my prime reason was to bring to the attention of the professional community the importance of their taking a proactive consultative role to ensure that their client's life insurance portfolios, do not expire prematurely. Many of these amateur or unskilled trustees, have no knowledge, skills, or qualifications to deal with the complexities of managing an individually owned or trust-owned life insurance policy, other than being the eldest child or living in close proximity to the parents.

These individuals usually know little about gifting provisions or administrative functions necessary to achieve the most favorable taxable outcome involving their parent's life insurance portfolio, let alone whether they're aware that they have assumed 100 percent responsibility for the performance and sustainability of the life insurance policies they have been entrusted with. Even fewer are aware that as a trustee, they have assumed a fiduciary responsibility to manage the life insurance portfolios so as to ensure that the policy's death benefits get to those family members who were originally intended as beneficiaries by the parents. In order to accomplish these tasks, the trustees or private owners are often entirely dependent on their parent's CPA or Attorney for assistance. Unfortunately, that advice is usually neither sought nor provided. As a practitioner over the last 40 years, I would often see an individual with a six figure stock or bond portfolio contact me, or their investment adviser, once or twice a day, a week, a month, or quarter. Yet, that same individual with a seven-figure life insurance portfolio has not looked at nor reviewed their policies performance in years.

Most individuals are unaware that their current life insurance policies are not guaranteed to last for the rest of their lives, and those policies need to be actively managed just as they would their stock bond or real estate portfolio, in order to make certain that their policies are adequately funded so as to keep their coverage in force to at least age 95.

So, whether you are an attorney or a CPA servicing a client or managing a family office, whether you are an investment professional or a life insurance agent or broker, this book, depending on how you use the information, or choose not to use it, will have a significant impact on protecting a family's wealth, simply by ensuring that sufficient liquidity is provided to an estate through a client's life insurance portfolio. The successful transfer of assets earmarked for the next generation will also directly affect the type of relationship you will have, or not have, as an adviser with the next generation.

As an attorney, you played a vital role in encouraging and assisting your client to initiate or update their will and or trust, and set up their Crummey letters and/or advanced directives. You may have provided your client and their trustee with a trust protector – yes, we will discuss that in more detail later – and a well-thought letter of instruction advising the trustee as to exactly how the grantor would have liked certain matters to be handled.

As an accountant, you have an ongoing relationship with your client. Your client values your opinion (or that client would not pay your fees) and trusts your advice or that client would not remain a client. Your clients look to you to protect them from anything financial, so how might you explain the loss of an anticipated significant death benefit of a life Insurance policy as a result of

miscommunication or neglect on the part of their client or their client's family member?

An investment professional, or a financial adviser, is in a unique position to develop a close working relationship with their client. This is also the perfect environment for post sales service to take place and in my opinion will become the new and desired means of distributing Insurance products in the future.

Regardless of the outcome of the upcoming Department of Labor Fiduciary rules, it is important and beneficial to both the adviser and their client that the phrase "Know your Customer" extend to the client's trust, as well as to the life insurance policy funding that trust. Further that the phrase 'Do what's in your client's best interest' not have to be legislated into existence but rather come as a result of an adviser's self- imposed fiduciary responsibility stemming from doing the right because its good business sense, and a part of the new era of distribution.

Often, your client is not familiar with their life insurance portfolio, does not know that it can expire years earlier than originally anticipated, and is not comfortable talking about the subject. Therefore, it becomes imperative that you, as their adviser, take a proactive role, and advocate for the next generation to assure that your client is aware that reduced sustained Interest rates, neglect, and most recently how the increased COI's (cost of insurance) have adversely affected the duration of their life insurance policies.

While avoiding a policy lapse as a result of inadequate funding is the primary goal, it is important for the client to not waste assets and maximize the value of the life policies they currently have as compared to what other policies may be available in the marketplace today. To assure that this is done a client should be referred to an independent and experienced fee-based life insurance

consultant to assist them in ordering a RFP (request for proposal) to assist in determining whether they can take action today, which will prevent them from becoming a part of the increasing number of individuals whose life Insurance policies have become compromised.

Lastly, they should not reduce any part of their death benefit without first exploring the benefits of a life settlement option. The sooner the problem is brought to the attention of the client, insured, owner, trustee, grantor, or beneficiary, the more options they will have available, and less costly it will be for them to resolve their problem.

