



FIRMA National Risk Management Training Conference

Orlando, Florida

May 5-9, 2019

Wyndham Grand Orlando Resort Bonnet Creek

14651 Chelonia Parkway

THEFIRMA.ORG



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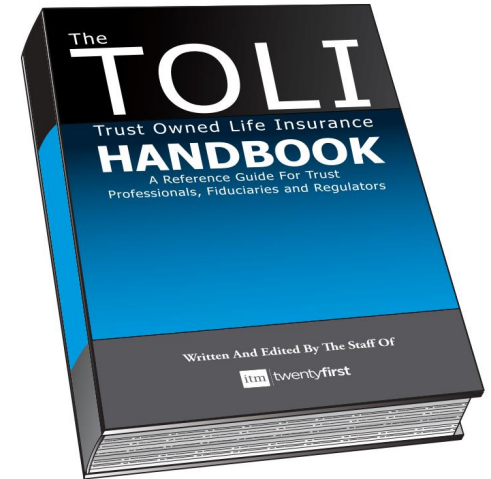
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Presentation Overview

- TOLI Handbook
- ILITs & Estate Taxes
- What are the Numbers Telling us?
- The Top Five Mistakes Made by TOLI Trustees
- Three Remediation Case Examples

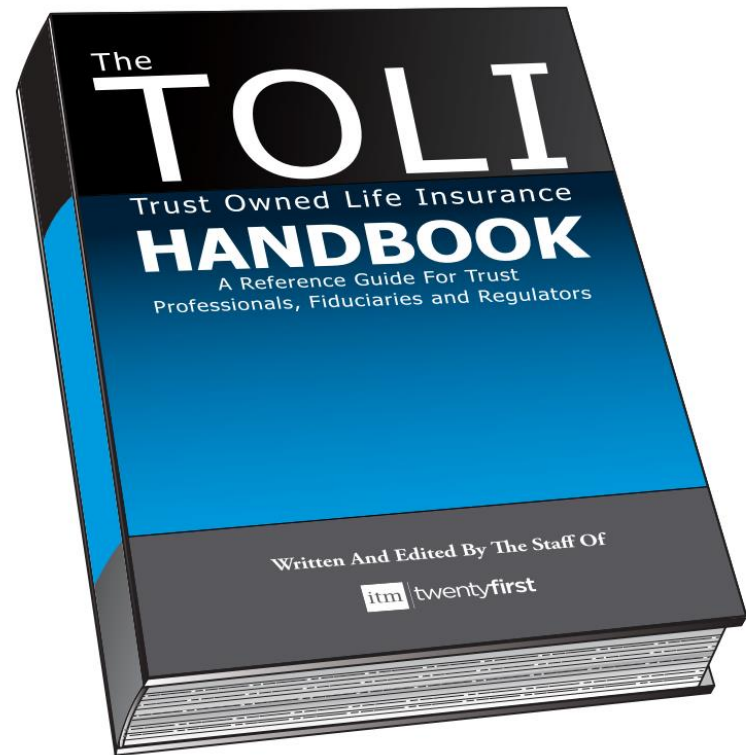


Turtle Story



TOLI Handbook

- Forward
- Highlights
- TOLI Quiz



Why use an irrevocable life insurance trust?

- Create liquidity for trust beneficiaries
- Utilize annual gift exclusion to fund premiums
- Proceeds are outside of the grantor's estate and tax free



ILIT Success Story

- 2,000,000 Survivor Universal Life Policy Issued 2001
- Female age 66 – deceased at age 83
- Male age 69 – deceased at age 80
- Annual premiums \$25,962
- The surviving spouse passed in December
- Total premiums paid **\$432,790**
- Death benefit received paid to trust **\$2,000,000**
- ROR **362%**

Federal Estate & State Estate Taxes

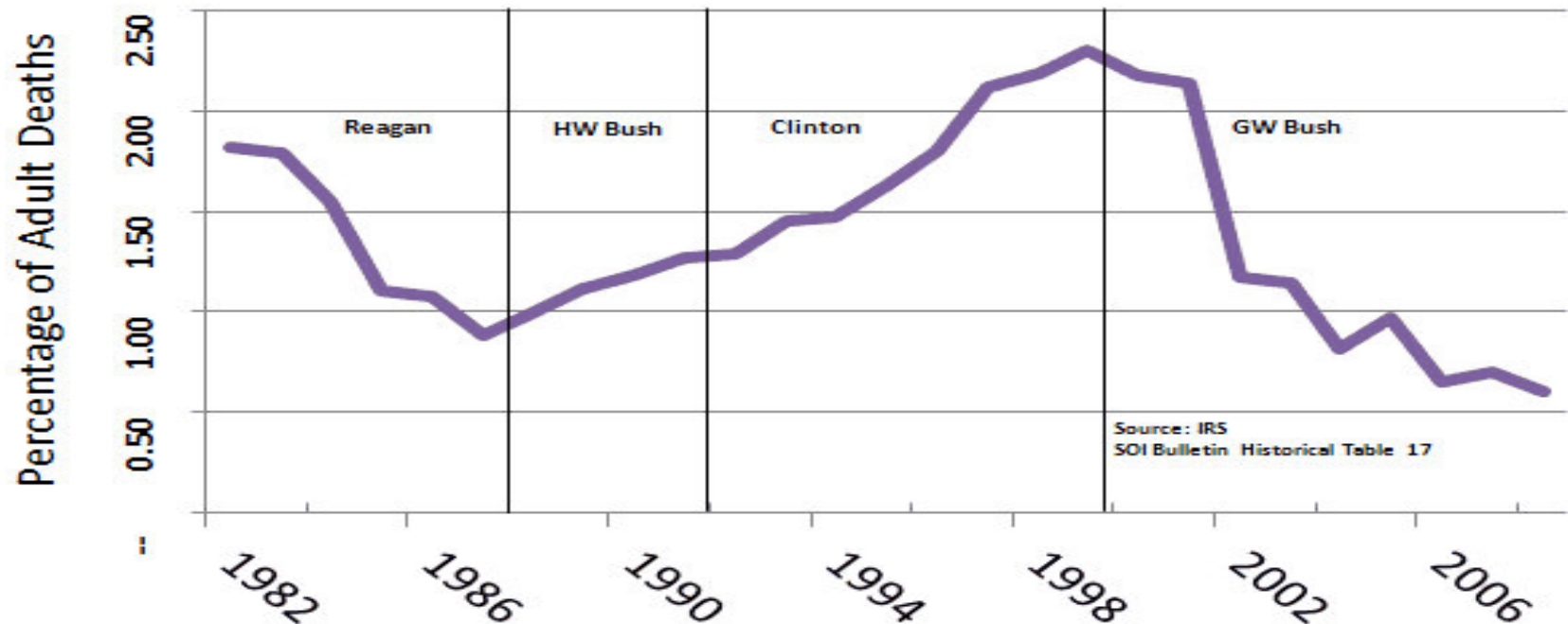
Volatility, is there a lesson here?

- 1916 – 2019 approaching 100 years
- 1941 – 1976 rates peaked at 77%
- 2001 – 55% tax - \$675,000 threshold
- 2010 – Repealed
- 2011 - 35% - \$5,000,000 threshold
- 2013 - 40%
- 2018 - \$11,180,000 exemption
- 2026 – Sunset threshold back to \$5.6 million



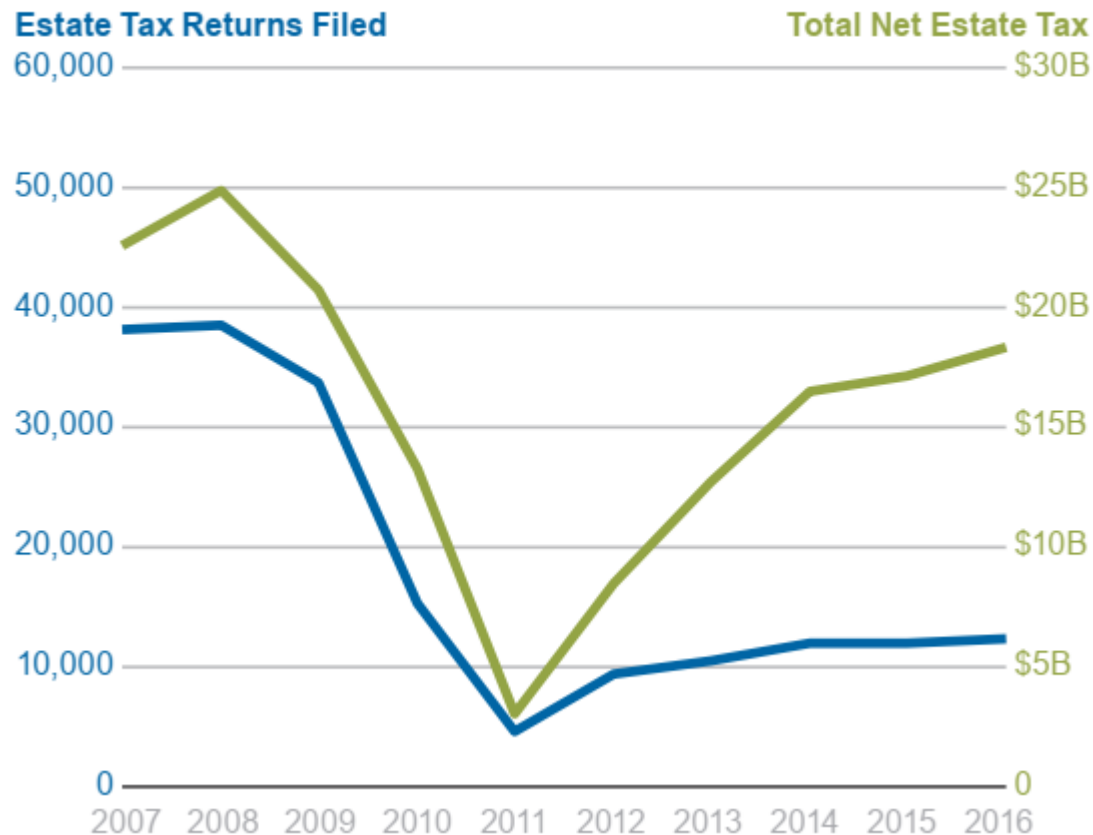
Politically Charged

**Estate Tax Returns as a Percentage of Adult Deaths,
1982-2008**



Form 706 Filings

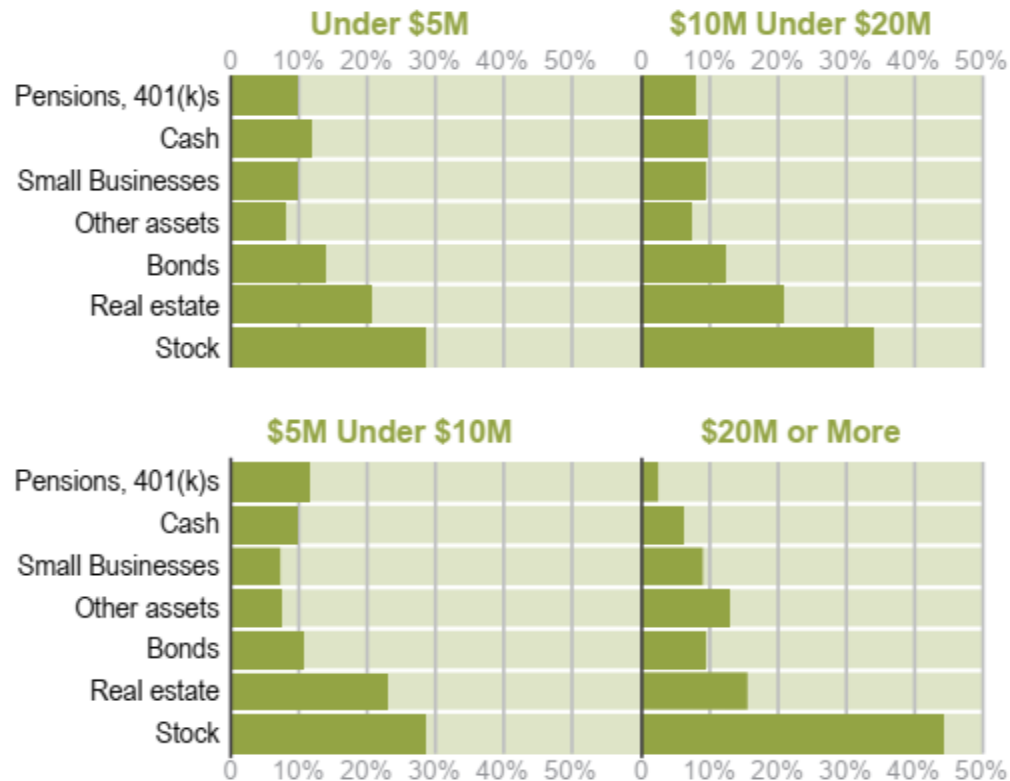
Estate Tax Returns Filed and Total Net Estate Tax, 2007–2016



Source - IRS Tax
Statistics

Estate Composition

Portfolio Composition of Estates, by Size of Total Assets, Filing Year 2016



Source - IRS Tax
Statistics

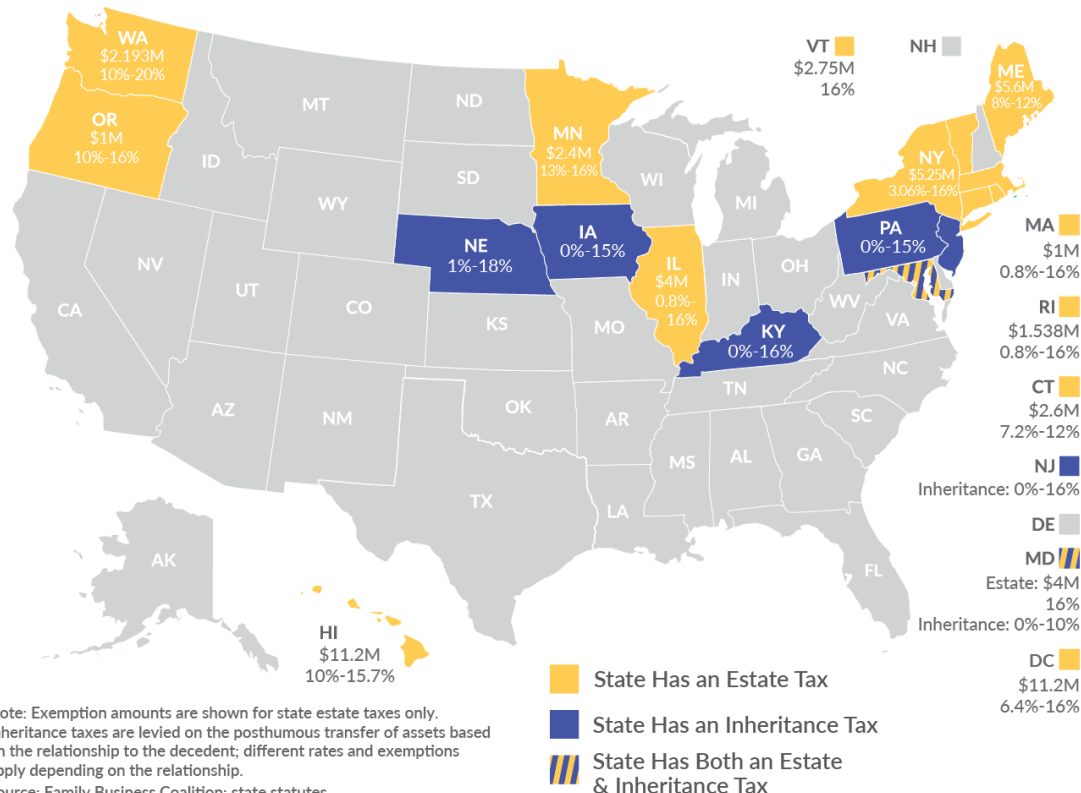
Estate Tax Exclusion & Tax Rate Chart

Year	Exclusion Amount	Max/Top Tax Rate
2001	\$675,000	55%
2002	\$1 million	50%
2003	\$1 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2 million	46%
2007	\$2 million	45%
2008	\$2 million	45%
2009	\$3.5 million	45%
2010	Repealed	
2011	\$5 million	35%
2012	\$5.12 million	35%
2013	\$5.25 million ^[30]	40%
2014	\$5.34 million ^[31]	40%
2015	\$5.43 million ^[32]	40%
2016	\$5.45 million ^[6]	40%
2017	\$5.49 million	40%
2018	\$11.18 million	40%

State Estate or Inheritance Tax Map

Does Your State Have An Estate or Inheritance Tax?

State Estate & Inheritance Tax Rates & Exemptions in 2018



State Estate Tax Thresholds - 2019

- **Connecticut** – \$3,600,000
- **District of Columbia** – \$11,400,000
- **Hawaii** – \$11,400,000
- **Illinois** – \$4,000,000
- **Oregon** – \$1,000,000
- **Maine** – \$11,400,000
- **Maryland** – \$11,400,000
- **Massachusetts** – \$1,000,000
- **Minnesota** – \$2,700,000
- **New York** – \$11,400,000
- **Rhode Island** – \$1,561,719
- **Vermont** – \$2,750,000
- **Washington** – \$2,193,000

What's the Big Deal?

Policies	Category	Death Benefit Value	Percentage
49675	Total Policies	\$ 90,228,030,725.00	100.00%
45254	Net Death Benefit	\$ 82,197,880,229.00	91.10%

- How many have estate tax issues
- 9 billion in lost benefits
- Are you prepared

What's the Big Deal?

Policies	Category	Percentage
358	Annuity	0.72%
6747	Term	13.58%
19825	Universal	39.91%
5650	Variable	11.37%
17095	Whole Life	34.41%
49675		100.00%

- Universal life surpasses whole life
- Kicking the can – term insurance
- Invariably variable



What's the Big Deal?

Policies	Category	Percentage
23054	Policy Rated A	46.41%
5318	Policy Rated B	10.71%
3542	Policy Rated C	7.13%
2943	Policy Rated D	5.92%
8471	Policy Rated F	17.05%
4390	Policy Not Rated	8.84%
1957	Policy Rated U	3.94%
49675		100.00%

- Risk Rating Criteria
- 57% A&B
- 23% high risk
- 13% risk unknown



bwc20847219 Barewalls ©

What's the Big Deal?

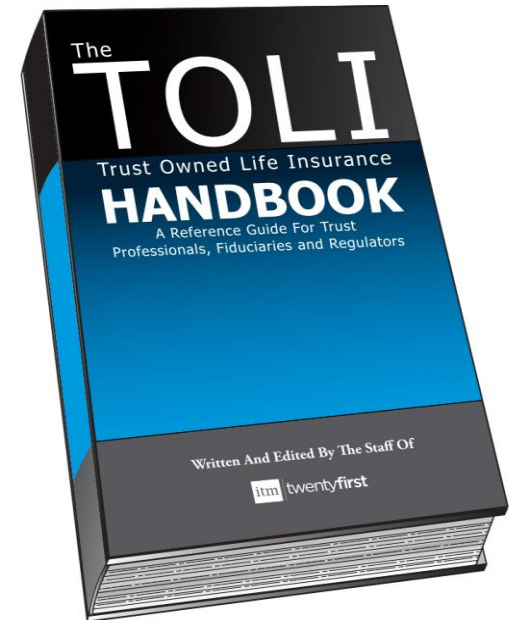
Policies	Category	Death Benefit Value	Percentage
4457	Trustee Resignation	\$ 5,809,260,422.00	8.97%
3033	Death Claims	\$ 1,932,207,157.00	6.11%
2022	Surrendered Policies	\$ 2,568,159,561.00	4.07%
1967	Policy Lapse	\$ 3,194,268,206.00	3.96%
1706	Policy Replacement	\$ 2,805,256,474.00	3.43%
1311	Transferred Policies	\$ 2,298,443,833.00	2.64%

- Good news bad news
 - 6% death claims
 - Average policy \$637,000
 - largest \$60 million
 - smallest \$544
 - 8% lapse/surrender

Top Five Mistakes Trust Owned Life Insurance Trustees Make

TOLI Handbook

- Chapter 3 - Developing a TOLI Administration System (pages 23-32)
- Chapter 4 - An Introduction to Life Insurance (pages 33-44)



Top Five Mistakes Trust Owned Life Insurance Trustees Make

1. Failing to Price Services Correctly

- Concessions & Accountability
- One-Third Less Than \$750
- 15% Fees \$250-\$500
- Majority Charge \$1,000-\$1,500
- Growing Number \$2,000+
- Annual Administration Cost - \$1,000
- Scale or Outsource



100 Account Portfolio

- 140 Policies
- \$268,000,000 Death Benefits
- \$26,902,500 Gross Cash Value
- \$2,437,800 Annual Premium
- \$1,107,900 Policy Loans
- 19.52 Years = Average Duration
- 25%-40% Stand-Alone Accounts



Cost of Administration

100 ILITs

\$100,000

- Administrators, TOLI Insurance Expert, Operating Expenses, Systems, Legal, Accounting, Compliance, Tax, Insurance, Etc.
- Policy Review Vendors
- Outsource Administration & Remediation - Vendor

The Dynamics

100 ILIT Portfolio Overview

340	Beneficiaries
148	Policies
68	Trusts gifting to pay premium
101	Policies to process premium payments
6	Policies to process premium payments more frequently than annual payment
32	Trusts with grantors no longer gifting to pay premium
47	Policies where no premium or insufficient premiums are paid

100 ILIT Portfolio Overview

	Administration and Operational Commitment
600	Pieces of incoming mail
540	Pieces of outgoing mail total (admin and remediation)
105	Premium/Gift notices mailed
79	Those that will actually pay and have to be processed
265	Crummey notices mailed out
50	Hours on the phone with the carrier
50	Hours on the phone with other admin tasks (faxes, updating contact info, etc.)
20	Hours processing deposits
70	Hours reviewing policy reviews/illustrations

100 ILIT Portfolio Overview

	Remediation – Policies Requiring In-depth Analysis & Resolution:
44	# of policies requiring remediation annually
5	Policy lapse in less than 1 year
14	Policy lapse in less than 5 years
25	Policy lapse in 5-15 years
22	Policy lapse greater than 15 years
3	Death benefit decreases
11	Term conversion/premium increase

	Remediation Team – Estimated Hours
4	Hours – tax issues
20	Hours – pre-acceptance and policy replacement issues
40	Hours - impact of late or missed premium
167	Hours - emails, phone calls, meetings dealing with remediation issues
137	Hours - drafting remediation documents, i.e Statements of Understanding & Disclosures
42	Hours - resolving carrier issues - unresponsive, incorrect information, discrepancies, etc.

Top Five Mistakes Trust Owned Life Insurance Trustees Make

2. Failing to Analyze Policy Options

- Trust goals change
- Policy costs may change
- Policy performance may change
- Example – grantor stops making gifts
 - Get in writing if possible
 - Order new illustrations to understand impact
 - Can beneficiaries pay premiums
 - Order life expectancy report
 - Explore policy options
 - Don't wait



Top Five Mistakes Trust Owned Life Insurance Trustees Make

3. Failing to Document the Process

- No crystal ball
- Tools & resources
 - Policy review
 - Legal review
 - Policy illustrations
 - Life expectancy evaluation
 - Insurance company
 - Cross-over analysis
 - Goals and objectives
- Policies & procedures
- Make the best decision with Information available at the time
- Document, document, document



Top Five Mistakes Trust Owned Life Insurance Trustees Make

4. Failing to Adequately Communicate

- Distribute policy reports
- Contact information
- Who is our client
- Always inform beneficiaries of potential for lost benefits



Top Five Mistakes Trust Owned Life Insurance Trustees Make

5. Failing to Adequately Understand Policy Replacements

- Good and bad replacements
- Change in investment temperament
- Better policy offerings
- Better underwriting
- More insurance



Remediation Case Study #1



***Cost of
Insurance
(COI)
Increase***

- **TOLI Handbook Page 124**
- COI Increase in a UL policy more than doubles the carrying costs
- A trustee must review all options, not just those easily identified, when determining the best course of action for a policy

Remediation Case Study #2



**Grantor
Stops
Funding To
Pay Policy
Premiums**

- **TOLI Handbook Page 129**
- Grantor informs the trustee that he will no longer be funding the policy
- A trustee must review all options to arrive at a prudent decision

Remediation Case Study #3



**Advisor
Proposes
Policy
Replacement**

- **TOLI Handbook Page 135**
- Grantor informs trustee his agent is suggesting the 3 policies in the trust be replaced by 1, more efficient policy
- A trustee must review the options on the existing policy(s) in a replacement scenario

Questions



Q&A



TOLI Challenge Answers

The ITM TwentyFirst TOLI Challenge

1. In Section 1 of The Uniform Prudent Investor Act of UPIA, the Prudent Investor Rule, the trustee is reminded that they owe a duty to this person or persons, who is the real client of the trustee:

- Grantor
- Settlor
- Beneficiary
- Policyholder

2. What is most important when determining the liability of a trustee's actions?

- The process
- The outcome
- Whether they follow the grantor's instructions
- Whether the policy performs as expected

3. Which of the following could possibly compromise the death benefit on a Guaranteed Universal Life policy?

- Paying premium too late
- Paying less than the required premium
- Paying premium too early
- All of the above

4. If lost cost of insurance (COI) increases that occurred in the last few years were found in what type of policy?

- Whole life
- Current assumption Universal Life
- Equity index Universal Life
- Variable Universal Life

5. The Conversion Provision in a term policy is most useful if:

- The grantor wants a term policy for a long period of time
- The insured has a major health issue
- The insured gets divorced
- The grantor wants to surrender his term policy for the cash value

1. Beneficiary
2. The Process
3. All of the Above
4. Current Assumption UL
5. Major Health Issue

Resources & Contact Info

- TOLI Handbook
 - <https://lifeinsurancetrustco.com/tolihandbook/>
- Risk Calculator
 - <https://lifeinsurancetrustco.com/fiduciary-liability-calculator/>
- Education Webinars
 - <https://www.itm21st.com/Education/PastWebinars>
- Blogs
 - <https://youritm.wordpress.com/>

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