



LIFE INSURANCE AS AN ASSET CLASS: ASSURING WEALTH PRESERVATION

Jane Sutter, 70, is a widow in excellent health. She has an estate in excess of \$150 million. The bulk of her estate is in a single stock her husband accumulated as an executive and investor. She lives very comfortably on the dividends from this stock. Consistent with her husband's investment philosophy and wishes, Jane intends to hold the stock for her lifetime. Jane's two daughters have been highly successful in business and are independently wealthy. Jane wants to leave them a legacy, but she's more interested in leaving a legacy to her and her husband's alma mater.

HOW IT WORKS

Jane's attorney and accountant had advised to consider purchasing \$50 million of life insurance to pay estate taxes. However, as a result of the Trump administration and new Congress's talk of repealing estate taxes, her advisors have told Jane to hold off on purchasing the insurance until "we know what happens with the estate tax".

However, Jane's investment adviser understands the value of life insurance as a hedge against market volatility and an untimely decline in the value of Jane's stock. He has also witnessed firsthand with other clients the risks of delaying the purchase of life insurance. He trades in risk every day. He knows that at her age Jane should take action based on what is knowable and certain today and not speculate on what may be the case in four years, eight years or ten years. Jane's investment adviser encourages Jane to purchase the \$50 million of life insurance now.

By allocating a small portion of her net worth or income each year to life insurance, Jane can smooth out the volatility in her portfolio and ensure her legacy desires. The life insurance death benefit arrives in the form needed, exactly when needed, regardless of market or economic conditions. And by purchasing the insurance now, she can lock in the price of her coverage when she knows her health is excellent.

Jane can purchase a \$50 million universal life insurance policy with an annual premium of approximately \$1.1 million. The policy is projected to last to age 100 under current assumptions and is guaranteed to age 88. The table below illustrates the leverage of the policy.

LIFE INSURANCE POLICY

Year	Total Premiums*	Death Benefit	Internal Rate of Return on Death Benefit	Tax-Equivalent IRR(@ 30%)
70	\$1,100,000	\$50,000,000	4514.36%	6449.09%
80	11,000,000	50,000,000	26.81%	38.31%
85	16,500,000	50,000,000	13.11%	18.73%
90	22,000,000	50,000,000	7.43%	10.61%
92 (L.E.)	24,200,000	50,000,000	6.02%	8.61%

*Assumes a crediting rate of 5.05%. Values are rounded.

As the table indicates, for less than 0.75 percent of her net worth each year, Jane can insure the value of her stock against a significant, untimely drop in value and protect her legacy plan. No other investment can offer such a hedge without significant exposure to stock market risk, bond interest rate risk, liquidity risk and reinvestment risk.

THE BOTTOM LINE

Life happens! By allocating a small portion of her portfolio to purchase a life insurance death benefit, Jane can mitigate market losses and may increase the amount of wealth transferred to her beneficiaries.



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This is a hypothetical example; there is no guarantee that similar results can be achieved.