Athena Universal Life℠

a survivor's policy review

case study

Athena Universal Life℠ (Athena UL℠) May Trump Survivorship

Situation

Mary and Ken were happily married with four grown children and three grandchildren. Properly advised, five years ago, when Ken was 65 and Mary was 60, they purchased a $5,000,000 survivorship whole life insurance policy in an irrevocable trust (ILIT). The premium was $155,000. With gift splitting and their annual exclusion gifts they were able to comfortably make annual gifts to their ILIT. Then the unexpected happened — five years after the policy was purchased, Ken died.

Mary and the ILIT trustee begin to plan a new strategy, but they have an unexpected realization. With Ken's death, the gifting capacity was cut in half. Even with Mary's grandchildren, she can only gift $78,000 each year to the trust; the balance of the premium would be subject to gift taxation and it would quickly erode her lifetime exemption.

The Client Profile

Survivorship Review is critical after the first death. Particularly for widows or widowers who:

- Have reduced gifting capacity following their spouse's death,
- Are healthy and might obtain single life coverage at a reasonable cost,
- Have a policy that is five or more years old where pricing improvements might benefit them.

The strategy outlined is most effective where there is a jump in cash value following the first death, but a periodic policy review is always appropriate.

Strategy

A jump in second-to-die cash value offers additional planning opportunities:

- Following Ken's death, the policy's cash value jumped from $325,623 in year four to $1,200,000[1] in year five.
- Using Athena UL℠, Mary and the trustee are able to 1035 Exchange the existing second-to-die cash value into Athena UL℠ single life coverage.

Before a client considers exchanging one life insurance contract for another, all aspects of the exchange should be considered, including but not limited to costs, guaranteed interest rates, surrender charges, cash value costs, insurance charges, possible rating changes and different features and benefits. A policy-to-policy comparison should be conducted.

1 Based on a Massachusetts Mutual Life Insurance Company Survivorship Whole Life policy issued on the life of a 65-year-old smoker male and 60-year-old nonsmoker female five years earlier with a premium of $155,000. The guaranteed cash value of this policy in year five would be $1,098,750.

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Benefits

- **Reduced Premium —** Mary and the trustee are able to maintain the $5,000,000 coverage with a reduced premium of $20,538 (a reduction of $134,462 or 86.75%). This saved Mary considerable gift taxes and helped preserve her lifetime exemption.
- **Long-Term Guarantees —** Mary and the trustee have a policy with long-term guarantees up to her age 90.
- **Flexibility:** Perhaps more significantly, the policy as illustrated will accumulate meaningful cash surrender value ($2,232,365 by her age 85).[2] Should the trustee decide to make changes to the coverage, there will be more flexibility than with other types of coverage.
- **An Added Charitable Benefit —** The Charitable Legacy℠ Rider, included at no additional cost to eligible Athena UL℠ policies, provides a qualifying charity of Mary's choice with an additional death benefit of up to 1% of the base policy Face Amount ($50,000), provided the policy qualifies for a legacy payment.

How This May Work for Your Clients

With improvements in product pricing and mortality, life insurance coverage is more efficiently priced than it was even a few years ago. A periodic policy review will help uncover if the client may benefit from new coverage. When exchanging policies, it is important to weigh all factors including possible surrender charges, new contestability periods and changes in the insured(s) health. However, in situations such as Mary's, coverage could be improved upon and significantly improve planning results.

2 This is a supplemental illustration and must be read in conjunction with the basic illustration. The basic illustration contains values using the same underwriting assumptions as this supplemental at both guaranteed charges and guaranteed interest rates and contains other important information. The values represented here are for a $5,000,000 Athena UL℠ policy on a 65-year-old female Standard Plus Non Tobacco User. The values reflect a $1,200,000 1035 Exchange into the contact and the cost of annual premiums payable to age 90, are non-guaranteed, and assume current charges and a current interest rate of 4.25%. If guaranteed rates and charges are used, the policy would fail in year 26.

For More Information, please call:

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