

# ILITs – Teamwork, Collaboration & Advocacy

Presented by: **Greg Kizer**, CAIA, VP of Marketing, RIC Omaha  
and **G. Tate Groome**, CFP®, CLU®, CEO, LifeTrust3D™



TRUST EDUCATION  
*Foundation*



## Greg Kizer, CAIA

Greg is responsible for establishing, growing and servicing client relationships through the professional marketing of RIC's products and services. He began active employment upon moving back to Omaha in January of 2011.

Prior to joining RIC, Greg worked in Chicago employed by Man Group (LSE: EMG.L), one of the largest publicly traded alternative asset managers in the world. He served in a client-facing role and supported sales efforts in North America.

## G. Tate Groome, CFP®, CLU®

A Certified Financial Planner™ and Chartered Life Underwriter™ professional, he earned his degree from UNC Chapel Hill. He has over a decade of experience in providing trusted life insurance solutions to individuals, business owners, and trustees. He earned Biltmore Beacon's distinguished "40 under 40 Award" in 2014, and was named by LifeHealthPro as one of the "Top 20 Most Creative People in Insurance" for 2015. He was also a recipient of the North Carolina Volunteer Award, chosen by the governor of North Carolina.

Prior to forming LifeTrust3D™, Tate taught elementary education and coached basketball for at-risk youth.



## About Us

Greg Kizer, CAIA, VP of Marketing, RIC

G. Tate Groome, CFP®, CLU®, CEO,  
LifeTrust3D™

- I. Introductions
- II. ILIT – State of the Union: Client Advocacy
- III. ILIT Changes, Statistics & Reality
- IV. Issues facing Trustees:
  - a. Maturity Provisions
  - b. Cost of Insurance (COI) Increases
  - c. Private Equity Take-Over
- V. Life Settlements
- VI. Policy Administration – Open Discussion

# Agenda





Who is your  
client's advocate?



# State of the Union – *The Changes*

- Impact of Increased Estate Tax Exemption
- Impact of Sustained, Low-Interest Rate Environment on Whole Life and Universal Life
- Increasing Cost of Insurance (COI) Charges
- Increasing Trustee fees for ILITs
- Why Life Insurance still makes sense:
  - Attractive, tax-free IRRs
  - Changing Estate Tax Laws
  - Immediate Liquidity
  - Asset Protection



# State of the Union – *The Statistics*

**7 in 10**

policies have not been  
reviewed in the last 12 months

**12%**

guaranteed policies  
with compromised  
grantees<sup>1</sup>

**5-10%**

policies in force  
lapsing in less than 90 days

**1 in 4**

**Policy reviews uncover  
action items**

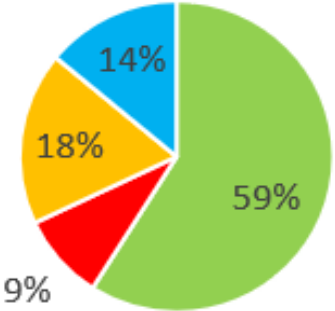
**70%**

assigned agent<sup>1</sup>



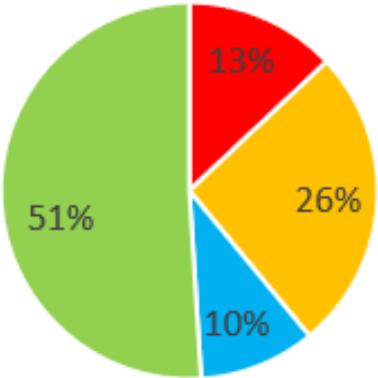
# State of the Union – *The Statistics*

Funding Adequacy



- No Funding Issues
- Projected to Lapse within 10 Years
- Projected to Lapse greater than 10 Years
- Funding Concerns - Outlive Maturity, Drop in Death Benefit

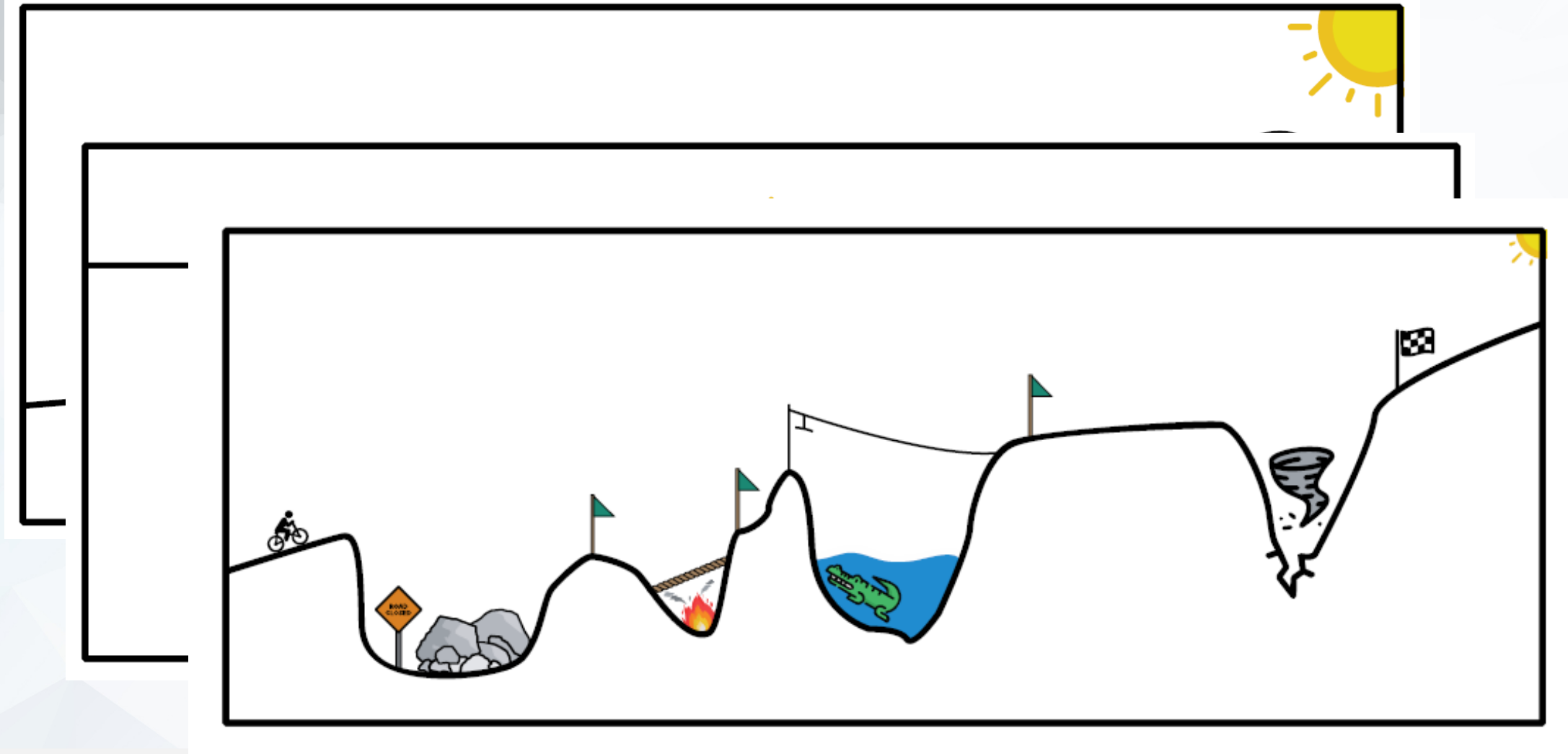
Trustee Attention Recommended



- Urgent
- Important
- Informational
- No



# State of the Union – *The Reality*



Happy 100<sup>th</sup> Birthday Mr. Lebbin



**Maturity  
Provisions**



# Maturity Provisions: *No Maturity Extension*

- Carriers extending Maturity Provisions: Principal, Minnesota Life, Pacific Life.
- Maturity Provisions prior to age 100:
  - Genworth UL (age 95), Commonwealth VUL (age 95)  
Transamerica, SunLife.

## Sample Maturity Provision Language

This product is designed to mature on the anniversary date closest to the younger insured's age of 98. The maturity date for this policy is August 21, 2023. If the policy matures by the passing of both insureds before the maturity date then the policy proceeds will be the Death Benefit. If the policy matures by age then policy proceeds will be the cash surrender value.



# Maturity Provisions: *No Maturity Extension*

## Policy Characteristics

- Universal Life
- \$1,000,000 Death Benefit
- \$385,000 Cash Surrender Value
- Annual premium of \$45,000
- Female Insured Age 88
- Maturity Age 95

## Suitability:

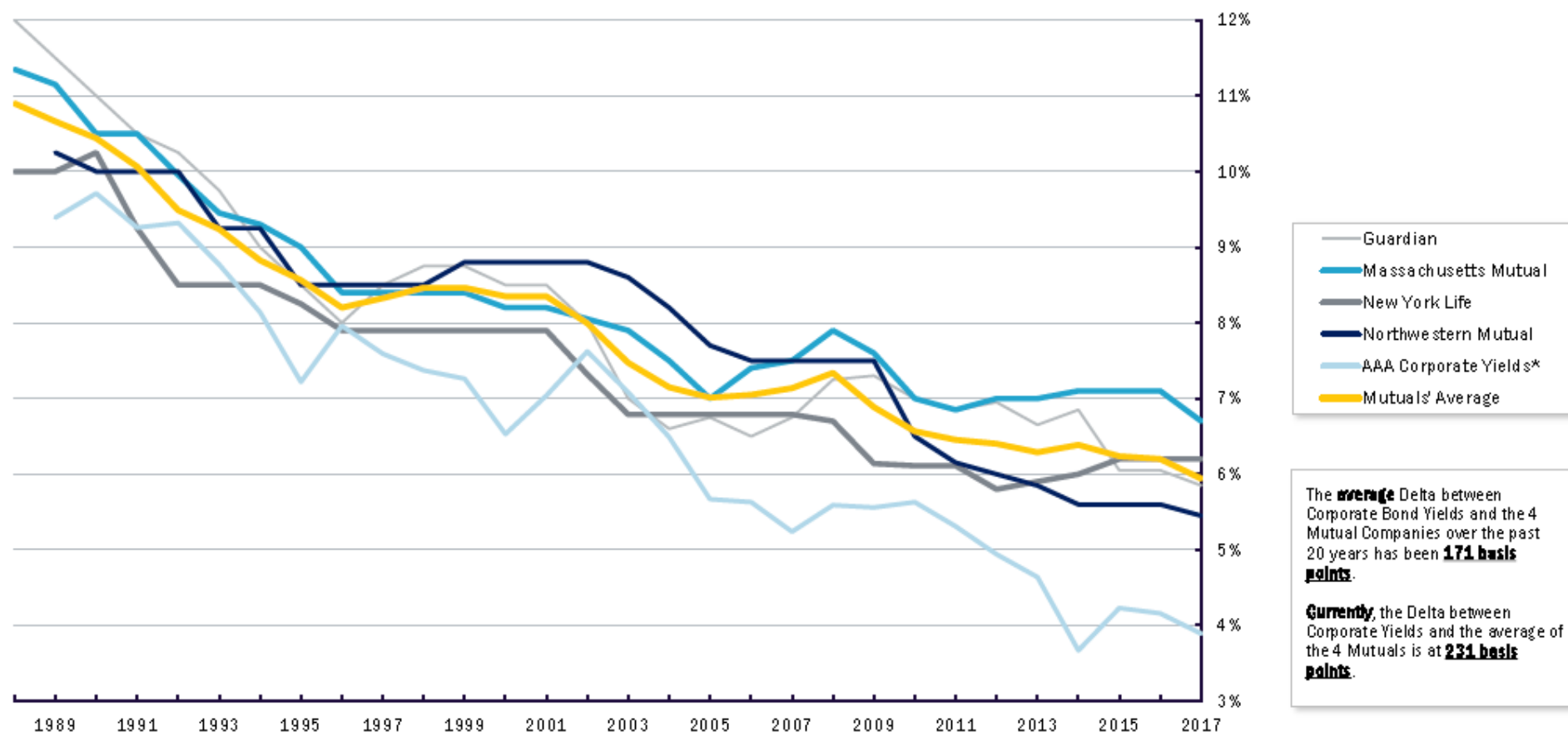
- Insured in good health for age
- \$1,000,000 Death Benefit Important
- Grantor able to fund premium

Policy was issued in the 1990's when it was common for the maturity age to be 95. At maturity, the policy is projected to have \$1,000 cash value based upon annual funding of \$45,000. Trustee verified with insurance company that at maturity the policy will pay out the cash value. Grantor/Beneficiary made aware of the issue and continue to fund policy.



# Impact of Sustained, Low-Interest Rates

## Historical Whole Life Dividend Scale



# Case Example: *Low Interest Rates*

- \$8,000,000 Whole Life / Term Blend on 56 year old couple.
- Policy issued in 2010.
- Projected Premiums = \$137,000 for 14 years (age 70)
- Dividend in 2010 was 6.15%. Agent assumed 5.65% (sign of a great agent!)



# Case Example: *Low Interest Rates*

2016 Illustration based on 5.45% dividend rate

*Non-guaranteed dividends used to purchase additions, then reduce premiums*

	1	2	3	4	5	6	7	8
End of Year	Insurance*	Dividend*	Annual Outlay (Beg Yr)	Annual Benefit Received (Beg Yr)*	Cash Surrender Value Increase*	Total Prem. Outlay from Year 8*	— Cash Surr. Values — Total*	Guaranteed
7	8,000,000	15,529	N/A	N/A	N/A	N/A	924,056	908,526
8	8,000,000	19,228	137,000	0	174,139	137,000	1,098,195	1,009,195
9	8,000,000	23,297	137,000	0	183,698	274,000	1,281,894	1,112,610
10	8,000,000	27,755	137,000	0	193,785	411,000	1,475,679	1,218,720
11	8,000,000	35,762	137,000	0	207,504	548,000	1,683,184	1,327,410
12	8,000,000	40,563	137,000	0	218,205	685,000	1,901,389	1,438,568
13	8,000,000	45,839	137,000	0	229,540	822,000	2,130,930	1,552,155
14	8,000,000	51,564	137,000	0	239,500	959,000	2,369,930	1,667,994
15	8,000,000	57,803	137,000	0	249,000	1,096,000	2,618,930	1,785,832
16	8,000,000	64,663	137,000	0	258,000	1,233,000	2,867,930	1,905,441
17	8,000,000	69,472	0*	0	152,415	1,233,000	3,020,345	1,943,436
18	8,000,000	74,745	0*	0	165,832	1,233,000	3,186,177	1,979,746
19	8,000,000	80,069	0*	0	172,032	1,233,000	3,358,209	2,014,228
20	8,000,000	93,012	0*	0	177,722	1,233,000	3,535,931	2,046,599
21	8,000,000	98,802	0*	0	182,608	1,233,000	3,718,539	2,076,585
22	8,000,000	104,570	0*	0	186,614	1,233,000	3,905,153	2,103,834
23	8,000,000	110,060	0*	0	189,632	1,233,000	4,094,785	2,127,955
24	8,000,000	115,185	0*	0	191,469	1,233,000	4,286,254	2,148,611
25	8,000,000	119,779	0*	0			4,479,033	2,174,863
26	8,000,000	124,922	0*	0			4,673,955	2,269,485

2 Additional, Annual Premiums  
due to decreasing dividends. 0.20  
basis point decrease caused \$274K  
additional premium



# Case Example: *Low Interest Rates*

2017 Illustration based on 5.00% dividend rate

Non-guaranteed dividends used to purchase paid-up additions - See Illustration Assumptions for changes

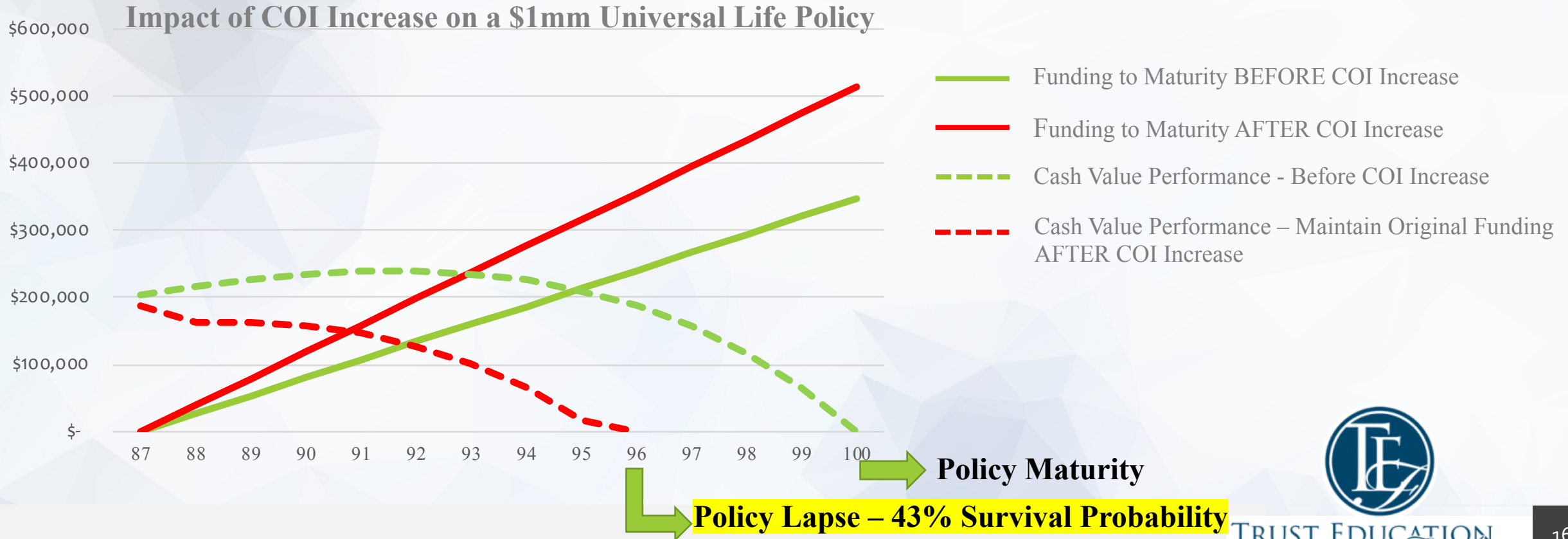
Age (Beg Yr)	Calendar Year	1 Insurance*	2 Dividend*	3 Annual Premium Outlay (Beg Yr)*	4 Cash Surrender Value Increase*	5 Tot. Prem. Outlay from 2018*	6 Cash S Total*	7
63	2017-18	8,000,000	13,822	N/A	N/A	N/A	1,088,113	
64	2018-19	8,000,000	16,944	137,000	176,965	137,000	1,265,078	
65	2019-20	8,000,000	20,308	137,000	185,711	274,000	1,450,789	
66	2020-21	8,000,000	27,227	137,000	198,051	411,000	1,648,841	
67	2021-22	8,000,000	30,834	137,000				
68	2022-23	8,000,000	34,823	137,000				
69	2023-24	8,000,000	39,101	137,000				
70	2024-25	8,000,000	43,903	137,000				
71	2025-26	8,000,000	49,156	137,000				
72	2026-27	8,000,000	55,166	137,000				
73	2027-28	8,000,000	61,615	137,000				2,240,277
74	2028-29	8,000,000	68,593	137,000				2,365,733
75	2029-30	8,000,000	83,486	137,000				2,491,577
76	2030-31	8,000,000	91,698	137,000				2,617,434
77	2031-32	8,000,000	100,581	137,000				2,742,799
78	2032-33	8,044,256	109,941	137,000				2,867,114
79	2033-34	8,122,089	116,861	27,058*	233,255	2,082,058	5,102,533	2,989,863
80	2034-35	8,197,897	123,446	20,138*	231,379	2,102,196	5,333,913	3,110,629
81	2035-36	8,271,815	130,869	13,554*	228,572	2,115,750	5,562,486	3,227,938
82	2036-37	8,345,732	138,280	6,131*	224,141	2,121,881	5,786,627	3,341,400

12 additional years  
of funding: From 14  
years to 26 years!



# Case Study: *Cost of Insurance (COI) Increase*

- Trustee managed a \$1mm Universal Life policy and was notified that COI rates had increased.
- Level Premium to mature policy **before** COI increases: **\$26,718**
- Level Premium to mature policy **after** COI increases: **\$39,534 (47.97% increase!)**



# Private Equity Take-Over Uncertainty

## Current private equity holdings



- Midland National Life (1958)
- North American Life (1996)

### GUGGENHEIM

- Guggenheim Life
- Security Benefit Life (2010)
- Delaware Life Holdings
  - SunLife US Business
- Wellmark Community (2009)
- Paragon Life (created 2010)



- Aviva US (2012-2013)
- Athene Annuity & Life Assurance
- Liberty Life (2010)
- Investors Insurance Corp. (2011)



- Fidelity & Guaranty Life  
(2016 – *Pending*)



- Phoenix (2015 – *Pending*)



- Accordia Life (relaunched 2014)
- Commonwealth Life (2005)
- Forethought Life (2013)
- First Allmerica (2009)
- Aviva Life Insurance Business (2013)
- Presidential Life (2013)



CHINA OCEANWIDE

- Genworth Financial



- Lincoln Benefit Life (2014)

The **Blackstone** Group®

- Philadelphia Financial Group (2015)



- Jefferson National (2012)



- Equitrust Life (2015)



# Life Settlement Alternative



A life settlement is the sale of an existing life insurance policy on the secondary market to a third party for fair market value.

- The owner sells policy in exchange for a lump sum settlement that can be higher than cash surrender value.
- The third party institutional investor becomes the owner of the policy, makes premium payments, and collects the death benefit at the insured's death.
- With institutional investors, policies are owned in large blind trusts with other policies.
- Insured has LE 25 months or greater



# Life Settlement Option

Trustee managed a \$3mm policy where the grantor quit making premium payments a number of years earlier and policy was going to lapse in near future.

- \$3mm Death Benefit
- Suspended premium payments and policy projected to lapse within 6 months
- Sold policy for \$544,000 *vs. letting it lapse and get \$0!*
- **Suitability** – Grantor unwilling to fund policy

## Tips for Trustees

- Sale of life insurance policy can take 4-5 months
- ***Terms may be marketable*** if Insured has health issues and policy is convertible
- Typically insureds would need to be over the age of 75 (younger with health issues) to qualify for a life settlement and the policy would need to have a death benefit of greater than or equal to \$100,000.
- 43 states regulate life settlements / 8 states Mandate Consumer Disclosure Notices from Insurers for alternative options vs. policy lapse (including life settlement)
- Tax Cut and Jobs Act 2018 defined policy's basis and gain from the sale of a policy in excess of basis is treated as long-term capital gains.



# Life Settlement Alternative: *Example of Independent Auction Process*

- Male / Female ages 88/85. Moderate health; 6.7 Joint LE. Policy Basis = \$500,000 | Cash Value = \$325,000
- \$2.5M Survivorship Variable Universal Life projected to lapse in 3 years with \$0 premium
- Premium to maintain coverage to age 100 = \$165K annually. Option to reduce to \$1M but premium is \$20K annually which is still too much for them.

Bidder	Bid Status	Initial	Round 1	Round 2	Round 3	Round 4	Round 5	Round 6	Round 7	Round 8
Abacus Settlements, LLC	Offer Surpassed	\$670,000								
Berkshire Settlements	Declined									
Corry Capital	Declined									
Coventry First	Offer Surpassed	\$400,000	\$791,000	\$791,000	\$817,000	\$817,000	\$863,000	\$863,000	\$900,000	\$900,000
Fair Market Life Settlement	Declined									
Great West Growth, LLC	Final High Offer	\$775,000	\$775,000	\$805,000	\$805,000	\$850,000	\$850,000	\$895,000	\$895,000	\$901,000
Habersham Funding LLC	Offer Surpassed	\$584,000								
Institutional Life Services	Not Submitted									
Life Equity	Offer Surpassed	\$400,000	\$785,000	\$801,000	\$815,000		\$860,000	\$873,000		
Life Policy Traders	Declined									
Life Settlement Solutions	Declined									
Magna Life Settlements Inc.	Declined									
Maple Life Financial	Not Submitted									
Milestone Providers, LLC	Declined									
Q Capital Strategies	Offer Surpassed	\$720,000								
The Lifeline Program	Declined									
The Settlement Group	Declined									

Round 1: \$400K  
to \$775K

Round 8: Low  
bidder from Round  
1 purchased policy  
for \$900K



# Administration Obstacles & Discussion

After talking to a number of ILIT Administrators, we have come up with a few pain points regarding ILIT Administration Issues.

1. Are ILIT's worth the liability?
2. How should we handle situations where the Grantor is not responsive?
3. How should we manage communication with clients that have underperforming policies?
4. How do we determine an appropriate Trust Fee for liability associated with ILITs?
5. How can we gain efficiencies with Contribution/Crummey letters?
6. How do we determine which policies should be reviewed?





# Thank You



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