By David B. Shannon and David E. Appel, CLU, ChFC, AEP

Asset Repositioning: A Winning Strategy

The repositioning of assets throughout your client's lifetime can help lessen the exposure to taxes and other transfer expenses at death.

When a client has an investment asset that is considered money that they are never going to access, or is earmarked for the next generation, we often ask ourselves if there is a potential for leveraging this particular asset into a larger and more tax-efficient total in the future. Oftentimes, the answer is yes. One way to accomplish this is in the form of permanent life insurance held in an irrevocable trust.

The repositioning of assets throughout one's lifetime can help lessen the exposure to taxes and other transfer expenses at death. This concept can be utilized by clients with all types of investment vehicles, but tends to gain the most traction with those who have qualified investment accounts that fit the criterion mentioned. With the uncertainty relative to both income and estate taxes going forward, a client could potentially see an asset taxed as high as 50 percent of the value upon death. Life insurance can work as a tremendous outlet in which to reposition this type of asset because of the tax-free nature of the death benefit, and the death benefit being estate tax-free if it is held in an Irrevocable Life Insurance Trust.

In order for this plan to work, you need a planning team that consists of the investment advisor representative, estate-planning attorney, and of course, the insurance professional. Since we started showing this strategy to investment advisor representatives that we collaborate with regularly, we have been introduced to a number of clients who fit into this planning scenario.

For the investment advisor representative, this strategy is beneficial to them and their clients on a couple of levels. For the client, using systematic withdrawals from an asset, or required minimum distributions to fund a life insurance policy in a trust creates an additional pool of money for their heirs at death that can help offset any potential taxes. In the event that taxes at death are not relevant to your client, this strategy is just as powerful to clients either making annual gifts to family, or inclined to leave a legacy to the next generation.

In addition, I have often seen the internal rates of return on the death benefits at say, age 90, to be well north of 6 percent for individuals, and 8 percent for survivorship life policies. These internal rates of return are often more attractive to clients in their 60s and 70s than the potential losses that their annual gifts or required minimum distributions could be exposed to in the market.

For the investment advisor representative, this planning solution often leads to the potential of future business in the years to come. Whether this death benefit is ultimately used for taxes or is unknown is inconsequential. Upon the death of any insured, the investment advisor representative (and insurance professional) will be the ones to deliver the impending insurance proceeds to the next generation.

This strategy opens the doors to a consistent pipeline of future business and investible assets to secure. It is very rare that we implement a strategy like this without a "family meeting."

These meetings are the beginning stages of building the "family" client, which we know is what all advisors look to build their business around. If the insurance proceeds are needed for taxes upon death, that alleviates the need for the investment advisor representative to sell any securities to offset the impending tax bill.

A case in point

Whether our clients use a systematic withdrawal strategy from an IRA, or liquidation strategy (in conjunction with Required Minimum Distributions) to fund the life insurance policy, the results look favorable. Here is a brief example of a client who saw the benefit of utilizing their retirement account to fund a "legacy" for their grandchildren.

We know a couple, ages 73 and 71, in good health, and with two grandchildren. The couple had been gifting the maximum amount to each grandchild for years. Along with their investment advisor representative, we showed them a strategy using half of the existing gift of $26,000 to fund a second-to-die life insurance policy held in trust. This would still enable the grandparents to continue giving each child $13,000 per year, while also providing a future tax-free death benefit well over $1,500,000 ($750,000 per grandchild) upon the second death. The internal rate of return on this investment was over 6.5 percent at age 95, and very appealing to these clients.

As you build relationships with investment advisor representatives, talk to them about their clients who have accounts like these, and it will lead to some great planning opportunities for clients.

(The tax information contained in this material is based on federal laws existing on the date of its publication. Such laws are subject to legislative change and to judicial and administrative interpretation. Anyone considering the application of this information to his or her own situation should consult with his or her professional tax advisor.) at

David Shannon and David Appel, CLU, ChFC, AEP, are with Appel Insurance Advisors, LLC, in Newton, Massachusetts. Contact them at dshannon@appeladvisors.com *and at* david@appeladvisors.com.