ESTATE PLANNING STRATEGY: LEGACY FLOOR

When the federal estate tax exemption was $1 million, many life insurance agents didn’t look past funding for the estate tax liability as a strategy with their clients. The life insurance “need” on nearly all permanent life insurance sales was sold as “estate tax liability” or “estate planning.” But, in many cases, was that really the case?

Let’s look at an example. James is 60 years old. He is reaching retirement age and has accumulated $5 million in assets. After looking at his retirement needs, he has ear-marked $2.5 million of his current assets for his heirs. Given solid investment, he hopes that he can grow his projected legacy from $2.5 million to $4.5 million. Given his approximate 20 year life expectancy (see page 580), this should be very realistic goal for James. But, reality is that nearly 20% of 60 year old males will not survive to age 70. And, by definition, life expectancy means that point where half a population is deceased. So, even though James’ life expectancy is approximately age 80 – that is a 50/50 proposition.

So, James’ agent has discussed the idea of creating a “Legacy Floor” with him. Legacy Floor is a simple idea. While the terminology may be relatively new and the way it is presented may be new to some insurance professionals – Legacy Floor simply protects against early death. In our example, James anticipates growing his “savings” during the remainder of his lifetime to leave as a legacy to his heirs. What could derail his plan? James could not achieve his desired or expected growth rates on his assets. This could be a result of investment mistakes or simply an inopportune economic collapse. However, the biggest risk to James reaching his legacy goal is early death.

Using a modest portion of his current legacy portfolio (ie., the $2.5 million that James doesn’t anticipate needing during lifetime and his considers his legacy portfolio), James can protect his heirs against James’ early death. At age 60, a healthy male can purchase $2 million of permanent life insurance for approximately 1% of the $2.5 million legacy portfolio (i.e., $20,000 per year).

In addition to providing an immediate bump in James’ legacy of $2 million, by purchasing insurance James has created a floor that could protect his heirs against untimely market downturns.