

The Large Case Design

Memorandum

Timing is Everything

One of the questions we regularly ask at our marketing meetings is, 'What anomalies can we identify in the insurance and/or securities markets that will result in a unique transaction that our agents can use to increase sales?' Often the answer is a combination of existing products that produces a truly distinct result.

Sometimes external circumstances create an economic environment in which otherwise mundane products look positively inspired. When this happens, a limited window of opportunity is created for a particular class of clients who are lucky enough to recognize and capitalize on it. Such a window now exists for wealthy (healthy) clients ages 70 and over.

Due to the last two years of worldwide economic recession and a tepid beginning to recovery, clients in this age bracket find themselves with several difficult issues:

- 1) Having pulled out of the stock market in record numbers many, if not most, clients in this age bracket have parked their cash in extremely low yielding money markets, CD's and treasury instruments.
- 2) The market crash has forced most clients to reevaluate their risk tolerance. Can they rely on the stock market for their retirement given the abysmal returns of the last 10 years and the likelihood that they will live much longer than anticipated?
- 3) Given the lower expectations of future growth and current depressed portfolio values, will they be able to pass on their wealth to their children while maintaining the lifestyle to which they are accustomed?
- 4) If they possess significant wealth, is there a way to diversify their portfolio to hedge against these risks?

As I am writing this memorandum the Fed has announced their intention to keep interest rates at historic lows for the foreseeable future. This means large sums will be parked in 'safe' asset classes at rates somewhere between 0% and 3.5% for the next 1 to 10 years. Clients with assets invested in bonds are taking on the risk of a future liquidity problem, since yields will very likely inflate once the Fed feels more optimistic about recovery. Rising rates will erode the market value, compelling them to hold to maturity.

At this point in their lives, most seniors would like to eliminate risk and move towards safe return oriented investments. If you factor in the most recently reported increases in life expectancy, the likelihood of a senior client requiring a higher nominal return than is currently available is hard to ignore. So, what is the opportunity and how can you capitalize on it? We call it **Guaranteed Asset Maximization**. Here's what it can do for your clients. Let's say your clients, a healthy couple in their mid 70's, have \$1 million in CDs, yielding 2.15% interest. The asset is in the taxable estate and if the clients hold the asset, reinvest the income and live to life expectancy, it will be worth approximately **\$658,744 (net after estate tax)** to their heirs.

With that same \$1 million we can do the following:

- 1) Remove \$1,000,000 from the taxable estate (saving approximately \$450,000 in estate taxes).
- 2) Provide a guaranteed return of the initial \$1,000,000 investment to an ILIT tax free at death.
- 3) Provide an equivalent return of 10.67% on the investment at life expectancy.
- 4) Provide \$55,047 per year of net income for life--guaranteed (starting year 2).
- 5) Provide asset diversification with extremely high credit worthiness.
- 6) Produce net after tax value to the family of \$1,503,825 at life expectancy.

We can produce this result with no tax trickery or market risk. 100% of the return is guaranteed. Additionally, unlike the stand-alone sale of a life insurance policy where longevity reduces the internal rate of return, this transaction is hedged against mortality. Meaning, you will not diminish the benefits by living longer than life expectancy.

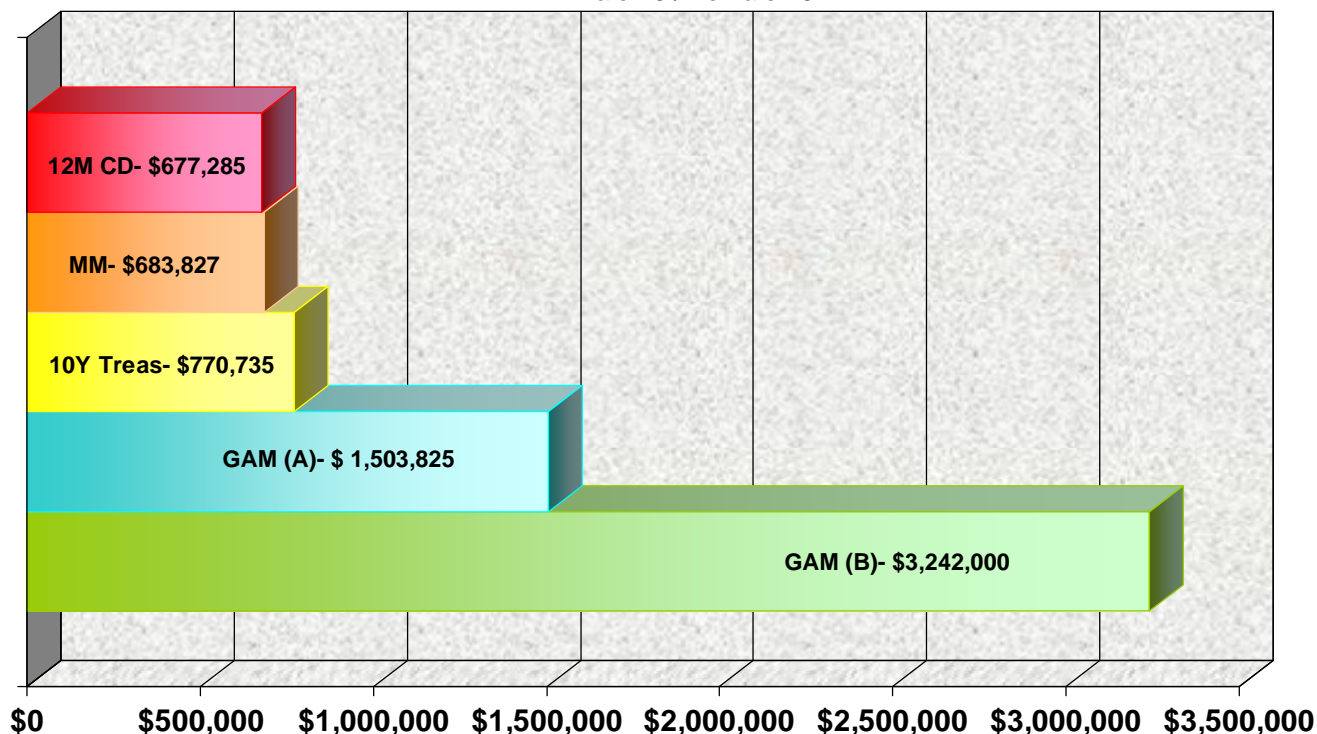
We view this transaction as a unique opportunity to diversify assets, shift money out of the estate and create significant cash flow during your client's lifetime. We also see this as a golden opportunity to discuss life insurance products with clients who would normally be resistant to the idea. This is more of an investment allocation/cash flow enhancement idea with nice estate tax benefits as a bonus. Think 'mortality hedged life insurance bonds'.

It's rare that we have the opportunity to position the products we sell as a much better alternative to traditional securities with virtually no risk. Hesitate at your own risk.

- Ron Sussman, CEO

Net Assets to Family

Projected Value at Life Expectancy (age 90)
Male 75 / Female 75



The opinions expressed in this memorandum are those of the author and are intended to provoke discussion and positive change within the industry.

At CPI Companies we understand the complexities and demanding nature of the large case life market. Allow us to assist you with your next important case.



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