

## **Case Study:**

### **Cash Value Life Insurance (CVLI) as an Asset Class**

#### **Concept:**

Contributions to a Qualified Retirement Plan are Tax Deferred, not exempt when accessed. Contributions to a Charitable Remainder Trust are Tax Deferred, not exempt when accessed. **Premium payments to a High CVLI are Tax Deferred and tax exempted when accessed from the CV.**

#### **Client Profile:**

Nick, a successful entrepreneur, owns multiple business entities. Nick earns \$5 million annually from the various entities and investment portfolio income. Nick max funds his Qualified Retirement Plan (QRP) annually, but is concerned that the QRP only defers his income tax liability to the future. Nick also recognizes that as his QRP grows, the asset becomes an increasing liability because it is part of his taxable estate when he dies. He does not want to create additional estate tax liabilities with the growing QRP for his family when his estate passes on to them.

#### **Collaborative Design:**

With the help of his tax advisors and legal counsel, Nick establishes a Beneficiary Defective Inheritors Trust (BDIT). He sells one of his companies, an S Corporation, to the BDIT in exchange for a promissory note with interest payments for a term of years. The company generates \$1,000,000 net income and the income liability flows through to Nick. Nick is primary beneficiary of the BDIT. Since the BDIT allows Nick to pay the BDIT income taxes with outside funds, the BDIT retains the entire \$1,000,000 less the interest payment it owes to Nick.

#### **Result:**

Nick's company, plus future growth, inside the BDIT is protected from future estate taxation. Nick creates a supplemental retirement plan with the BDIT income of approximately \$1,000,000 and funds the CVLI. The CVLI also creates a large death benefit to provide liquidity for estate taxes. All growth in the CVLI is tax deferred. At retirement Nick will have tax free access via policy withdrawals and policy loans. Basis step up at death with proceeds paid to the BDIT income and estate tax free.

**Revenue:**           \$ 600,000.