MassMutual Strategic Distributors

SUCCESS STRATEGIES
Advanced Sales

De-Risking Your Legacy With a "Floor"

Clients reaching retirement age who have legacy goals have important decisions to make on how best to achieve their objectives. Besides potential gift and estate tax considerations (if applicable), there are two primary factors that determine how much they are able to leave their heirs.

1. How their assets perform, and how much risk they are willing to take
2. How long they live

Clients will have various investing and risk profiles that will differently affect the first factor. But they all face uncertainty regarding the second factor, and that may be the biggest risk to achieving their legacy goals. Creating a "Legacy Floor" as part of their wealth transfer plan can have a big impact. Life insurance may serve as a "floor" that locks in a minimum value that goes to their heirs regardless of how their investments perform or how long they live.

Life Insurance

Let's look at an example

James and Sara are 60 years old. They have done well saving during their careers. They have accumulated a surplus of $2.5 million earmarked for heirs. The $2.5 million is currently not needed for retirement income, long term care, or other needs during their lifetime. $2.5 million would meet most of their legacy goals today; however, they are worried about the risks highlighted above. Their advisor discusses the idea of creating a "Legacy Floor."

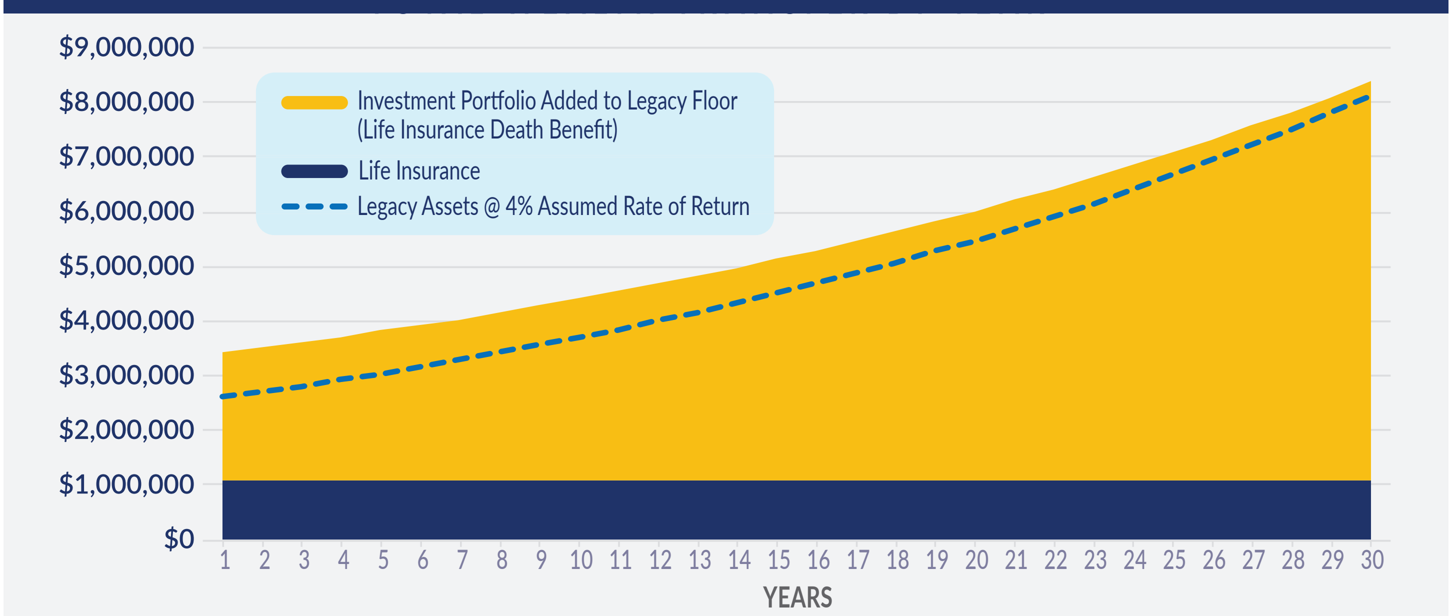
At age 60, for 10% of the $2.5 million Legacy Funds ($250,000 as a single premium in this example), two healthy 60 year olds could purchase over $1 million of Second-to-Die Universal Life coverage (SUL Guard). The life insurance policy immediately creates a 4 to 1 leverage in the amount passed to heirs. It also creates a "Legacy Floor" of $1 million regardless of what happens with the other 90% of their investment portfolio.

Life insurance can have a major impact on legacy values depending on different rates of return and lifespans. These examples assume that using these funds for the premium payment does not create a taxable event. Liquidating assets that create additional taxes may not be advantageous to the client.

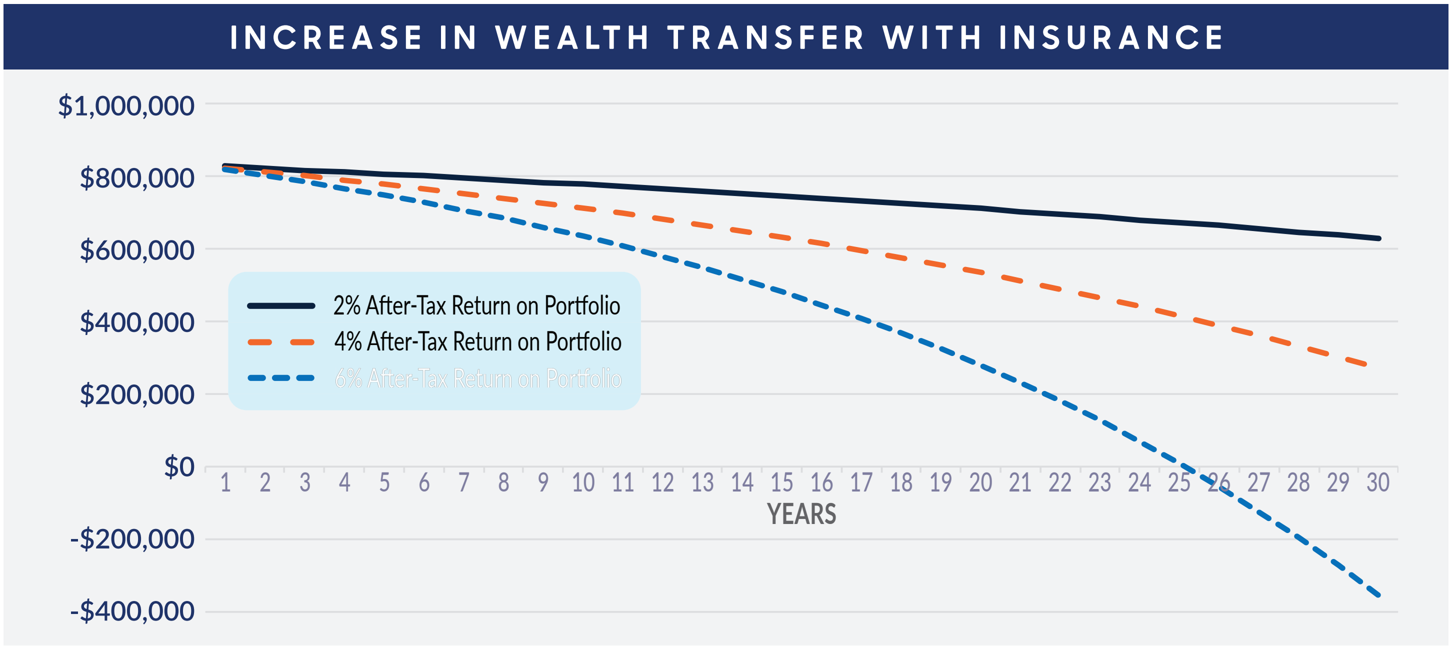
The first chart shows their $2.5 million in Legacy funds at a 4% after-tax rate of return over 30 years. (Tracked by the dotted line in the chart below.)

It is then compared to adding together the life insurance policy guaranteed death benefit of $1,080,530, which they purchased for $250,000, and the remaining portfolio of $2.25 million invested at the same 4% after-tax rate.

TOTAL WEALTH TRANSFER BY YEAR



We can also expand this to see the impact under different risk and return scenarios during retirement.



Here we can see it would take a combination of earning above 6% after-tax returns over a 25-year life span for the investment-only approach to catch up to the plan with insurance.

Contact Advanced Sales at **1-800-601-9983 Option #2**
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