

AVOIDING LIFE INSURANCE MISSTEPS

Richard J. Flynn, principal-in-charge of Rothstein Kass Family Office Group, and Russ Alan Prince, president of Prince & Associates, co-authors of *The Family Office*,

Advising the Financial Elite, explain the need to be vigilant when purchasing life insurance.

Life insurance can be a very powerful financial tool, when used properly. For the ultra-affluent, from paying estate taxes to addressing business debts, life insurance has an important role. While we're not compensated by life insurance commissions, we've developed a deep expertise in the field in order to meet the needs of our ultra-affluent clients. We've found that there are quite a number of ways the ultra-affluent are making missteps when it comes to buying life insurance.

Many of the ultra-affluent have purchased the wrong amounts of life insurance. Not surprisingly, we discover that they're buying much more life insurance than they need. Life insurance should only be obtained when all other more cost effective options have been exhausted and there remains a "gap." For example, life insurance should be considered only after bringing to bear all the legal ways to mitigate the confiscatory taxes imposed on a very large estate. What we unfortunately see is that life insurance is regularly promoted as the answer before even some basic legal strategies, such as discounting or estate freezes, are applied.

If you haven't had your life insurance critically reviewed by an unbiased authority, you probably should.

Another mistake many of the ultra-affluent make is that they buy the wrong kinds of life insurance. Permanent policies are sometimes the best option for the ultra-affluent. However, that doesn't mean the answer is automatically whole life. Today, there are a wide variety of different types of life insurance policies. What's critical is for the type of life insurance to – as precisely as possible – address the particular needs of the situation.

The way the ultra-affluent purchase the life insurance is often done in ways that prove problematic down the road. Premium financing, where the ultra-affluent take out a loan to pay – in total or in part – the premiums on a life insurance policy, is a prime example. While there are certain situations where financing works well, there are quite a few potential risks that can prove very costly and nerve racking for the purchaser. What's important is to derive the most efficient and viable way to pay the premiums on a life insurance policy. There's not one answer. Instead, creativity within clearly defined legal parameters is what best serves the ultra-affluent.

We find that nearly each and every one of our ultra-affluent clients need their life insurance policies carefully reviewed. If you haven't had your life insurance critically reviewed by an unbiased authority, you probably should. For us, it's been easy to either significantly lower the cost of the life insurance our ultra-affluent clients really need or to get them superior and more extensive coverage for the premiums they're paying.

Richard J. Flynn is head of Rothstein Kass Family Office Group, awarded 2011 Best Multi-Family Office. A lawyer and advanced planning specialist, Mr. Flynn advises high-net-worth clients on business, financial, personal and lifestyle matters.

Russ Alan Prince is one of the most published authors on the topic of private wealth. His body of work is regularly consulted by affluent individuals and families, elite advisors, family offices, private bankers, wealth managers, academics and the press.