

Life Insurance Needs of Business Owners

Brian Oard, President, Western Region, Wilmington Trust N.A.

Alvina Lo, Chief Wealth Strategist, Wilmington Trust, N.A.

Steve Gorin, Partner, Thompson Coburn LLP

Brian Oard: Aloha. We are live at the Hawaii Tax Institute in Honolulu, Hawaii. It's our privilege to have Mr. Steve Gorin who is a partner with the Thompson Coburn law firm based out of St. Louis, Missouri.

Alvina Lo: Talk to us just kind of high level what you see the role of life insurance is in a business owner.

Steve Gorin: There are really a few different things that life insurance can do. So, one of them is in a buy-sell agreement, it's really hard for a business to divert the business assets to buyout an owner. So having life insurance is a really convenient way to buy out somebody when they die. And also for the person's family, they can get instant money. They don't have to worry about whether the business is going to succeed to pay them off over all these years.

Another role is that when banks lend money to companies, they may have a line of credit and they're concerned about, well what happens if the owner dies. And finally there's a key person life insurance because, when an owner who plays a big role in the business dies, the business has to, first of all there's losses just not having that person around, needing to replace that person's skills.

And all the search process. So life insurance can help provide some extra funds to help the business keep going and be successful.

Alvina Lo: And how often would you say one ought to look at one's coverage?

Steve Gorin: The business should have its own checkups on an ongoing basis, but also the individual owners have their own financial needs, and their families have changing needs. So whenever they're doing a checkup on the business's situation or a checkup on their personal financial situation, they should do that.

Brian Oard: And having been in the industry, I would agree, because there's changing mortality assumptions, interest rate assumptions on these contracts don't work out. As we all know, this operates under a different set of law, it doesn't necessarily blend in with your will and your trust, it's got to be coordinated. So, there's all sorts of really good reasons for policy reviews. And should probably be done on, at least, an every three-year basis, if not an annual basis.

Steve Gorin: Oh, for sure. And then, I mean, the policy performance too because there's never ever been a life insurance projection that's been 100% accurate.

Brian Oard: Well I think you need to treat it like an asset as opposed to being a product.

Steve Gorin: And people view it as a black box that they don't understand, a lot of people, so it's good to have it reviewed. Like every year, do projections, what they call an in-force ledger, to see how they think that's going to perform.

Alvina Lo: One of the common objections I often hear clients say when we bring up this topic of life insurance is, well, I'm wealthy enough, I'm self-insured. I don't need it.

Steve Gorin: Well, some people do have a ton of liquidity, and that may actually be accurate for them. A lot of businesses, don't, they don't have the liquidity. They're using it for their business and they'll put it in term life insurance and then they're going to pretend like that's going to solve everything. But the problem is that as you get older term life insurance becomes more expensive until it becomes too expensive.

And really, what term life insurance should be is a patch to fill a liquidity gap, and they should be saving money as the business goes along. And then the question is, what's the most tax efficient way to save it? And if it's in a policy with cash value, then you can save it without having to pay income tax or capital gain tax on those reinvested earnings. So that's why putting a cash value policy together is really helpful, but far too few businesses do that.

Alvina Lo: So Steve, given the temporary increase in estate tax and gift tax exemption, are there any things that a client could think about in terms of maximizing their life insurance planning?

Steve Gorin: I think, first of all, there's a lot of people who think that the exemption is here to stay, and it's actually scheduled to sunset. And it's a mistake, I think, for people who have life insurance for liquidity to pay estate tax to give up that life insurance. Because we just don't know what Congress can do. It's also a question of not only considering that the federal rates might change, but your state death tax situation could change as well.

Brian Oard: Just talk about your experience with the industry and the importance of having the right insurance agent on the team.

Steve Gorin: Life insurance is really complicated. There's tricky tax rules. There's tricky financial rules. And for those who remember the TV series Hill Street Blues, the Sergeant would always end the briefing by saying "Hey, let's be careful out there."

For a deeper conversation on the issues discussed in this video please reach out to:

Brian M. Oard, CFP

President, Western Region, Wilmington Trust N.A.

310.300.3060

board@wilmingtontrust.com

[linkedin.com/in/brian-oard-8b06b23](https://www.linkedin.com/in/brian-oard-8b06b23)

Alvina H. Lo

Chief Wealth Strategist, Wilmington Trust, N.A.

212.415.0567

alo@wilmingtontrust.com

[linkedin.com/in/alvina-lo-737230](https://www.linkedin.com/in/alvina-lo-737230)

Steve Gorin

Partner, Thompson Coburn LLP

314.552.6151

sgorin@thompsoncoburn.com

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