POLICY REVIEW UNCOVERS TAX ISSUES & PROMPTS A SOLUTION THAT ADDRESSES CHANGING CLIENT NEEDS FOR GREATER TAX EFFICIENCY & LONG-TERM CARE COVERAGE

THE SITUATION

Cathy and Jim Harrington[1], ages 57 and 60, owned a New England bike shop. Recently, their community opened a new bicycle trail nearby and the couple's sales increased dramatically. Ten years ago, the couple bought a life insurance policy on Cathy's life for the purpose of providing supplemental retirement income.

With the couple's increased sales, they no longer needed the policy for supplemental retirement income and sought the financial planning advice of a Valmark Advisor. Early in the engagement, the Advisor ordered a review of Cathy's policy by the Valmark Policy Management Company (PMC).

THE PROBLEM

During the PMC team's review of Cathy's policy, they discovered that the policy had inadvertently become a Modified Endowment Contract (MEC). (A MEC is a tax qualification of a life insurance policy whose cumulative premiums exceed federal tax law limits). This was due to an additional 1035 exchange and a better-than-expected original underwriting rating. Because of this, distributions from the policy in the form of loans or withdrawals would be taxable as income.

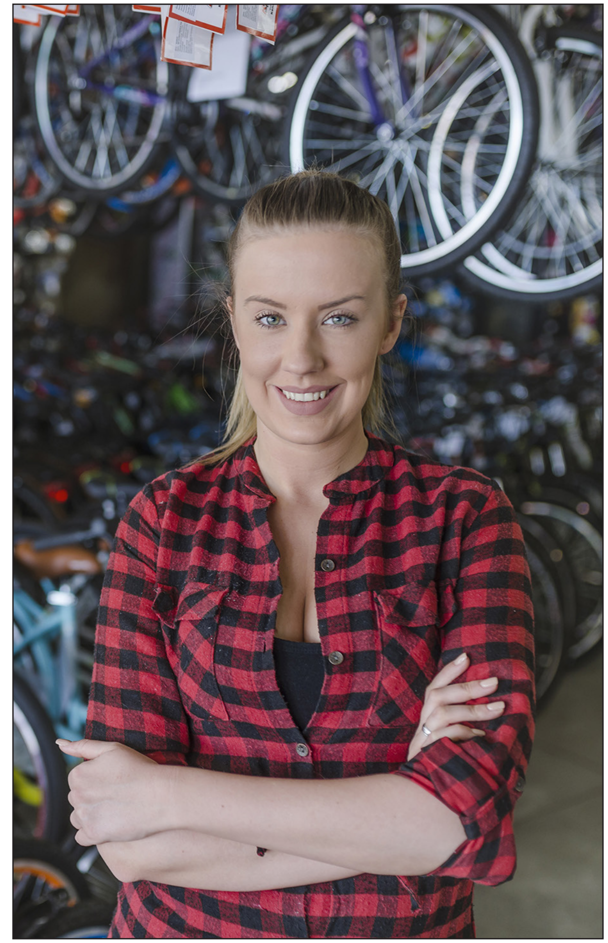
THE SOLUTION

The PMC recommended reviewing the needs of the policy with the client and researched three separate options that would either:

1. Maximize the efficiency for producing income in a tax-efficient manner (i.e., exchange the policy for an annuity to tax-efficiently distribute supplemental income); OR
2. Repurpose the policy to be used for its death benefit (i.e., exchange the policy for a policy that would maximize death benefit proceeds); OR
3. Repurpose the policy for long-term care needs along with death benefit coverage (i.e., exchange the policy for a policy with a long-term care feature).

THE OUTCOME

Because Cathy no longer needed the policy for supplemental retirement income, she decided to replace the policy with a hybrid life insurance policy with a long-term care rider. This ensured that the risk of death and need for long term care were both covered.



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[1]Client name has been changed to protect confidentiality.