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BUILDING MULTI-GENERATIONAL WEALTH



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When we think about wealth planning, we often consider concepts such as building our businesses, growing our investment portfolios, and planning for our retirement. The next important questions should be – “*What do we want to happen to our wealth when we are gone?*” -and- “*what is the most efficient way to accomplish these wishes from a tax point of view?*”

According to *Forbes*, 90% of wealthy families lose their wealth within three generations. That means that at some point along the way, family members who inherit wealth make decisions that erode that wealth or fail to properly plan for inheritance tax issues and have nothing left to pass on to the next generation.

This is especially important given the current landscape in Washington, DC as it applies to taxing the *top 1%* of Americans. There was a significant attempt to raise taxes on the wealthiest Americans in 2021 by the Biden Administration. To date, the

out of control national debt and large budget deficits, due to stimulus and other spending, play a large part in driving this thinking. Even without any changes enacted, the current lifetime estate tax exemption of \$12.06 million per individual is scheduled to sunset and be reduced by approximately \$5 million by the end of 2025. In estate planning terms, this is the *blink of an eye*, and wealthy families must begin planning now.

By utilizing life insurance in *multigenerational wealth planning*, we can provide meaningful benefits across a minimum of three generations and in many cases even beyond. Generation One (G1) in our planning are typically the parents, Generation Two (G2) would be their adult children, and Generation Three (G3) would be G1’s grandchildren.

This strategy begins by G1 purchasing large amounts of life insurance on G2 owned by an Irrevocable Life Insurance Trust (ILIT). The ultimate beneficiaries of the ILIT will be G3. Generally speaking, the issue is how does G1 pay the premiums for the life insurance held in trust in the most tax efficient manner, and without eroding their lifetime estate tax exemptions?

We can accomplish this by utilizing an intra-family loan, and entering into a *Private (Family) Split Dollar Arrangement* to fund the life insurance owned in the trust. In our approach, instead of gifting premiums to the ILIT, G1 will make an *intra-family loan* of the premiums to the ILIT. In addition, we can set up a *premium financing arrangement* to create even greater leverage for the family. This loan must be made at a rate equal to or higher than the published

Applicable Federal Rate (AFR), which is the minimum rate to have a loan that does not qualify as a gift under IRS rules. In addition, interest on this loan can be accrued, and is not due until the loan is scheduled to be repaid or until the death of the insured in G2.

Statistically, the parents will pass away before the children, and the loan will reduce G1's total taxable estate. While the loan is an asset of the parents' estate, since it is not due until the children's death, it will be discounted to present value, thereby, reducing the gross estate and estate tax of the parents. The following is a typical fact pattern in this type of planning:

- Parents (G1) life expectancy between 2-12 years
- Net worth of parents \$30M
- Children (G2) are in good health
- G1 would like to pass more of their estate to their children rather than the IRS

In this example, if the parents pass away in six years, we have accomplished the following:

- G1 estate includes the loan but since it is not due to be repaid until G2 dies (35-year life expectancy in this example) the IRS uses a discounted value for tax purposes, which could be \$7M or less
- G1 save significant estate tax
- G2 have paid up insurance policies
- G3 is protected

In addition to tax savings, this plan also offers G2 the comfort and flexibility to spend their inheritance from G1 as they see fit because the life insurance on their life guarantees that G3 will receive their inheritance upon the death of G2. Think about the power, freedom, and flexibility that can be enjoyed with the ability to spend with impunity while not having to worry about

disinheriting your children. To that end, G3 remains comfortable and secure knowing that their inheritance is protected and guaranteed by the life insurance held in the ILIT.

The benefits that this strategy provides at the death of G2 are compelling. Additionally, this strategy can provide benefits during their lives as well. Cash values that grow within the life insurance policies held in the ILIT can be accessed (in most cases borrowed), by the ILIT's Trustee. During the lifetime of G2 this cash value can be utilized for retirement, long term care, or other needs that G2 might encounter during their lifetimes.

As we discussed earlier, such a large percentage of wealthy families eroding their wealth over three generations can be easily avoided with proper planning. By taking into consideration the needs and planning opportunities for all three generations, we can create a comprehensive and most tax efficient multigenerational estate plan.

If you are interested in more information on multi-generational planning ... let's talk!



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