



wealth preservation

THROUGH LIFE INSURANCE STRATEGIES



CRESCENT

WEALTH MANAGEMENT



The purchase of a life insurance policy should go through the same careful analysis that goes into making any investment decision.

After a careful examination of your assets and your tax position and a thorough discussion of your estate planning goals, Crescent Wealth Management can help you determine how life insurance can play a role in meeting your financial needs. A specific recommendation on the type and amounts of insurance to own is almost entirely dependent on:

- The purpose of the insurance
- The length of time the protection is needed
- The future life insurance needs, and
- Current cash flow considerations.

From a financial viewpoint, there are three basic reasons to buy life insurance:

Family income protection. Life insurance generally is purchased to provide the family with ample income to replace the income lost by the death of a wage earner. The increase of two-income families has emphasized the need for coverage on both spouses.

Estate settlement costs. Individuals with sizeable estates often have a high percentage of their total wealth tied up in fixed assets. To pay the

federal estate taxes within nine months of one's death, the executor of the estate may be forced to sell a portion of the assets within the estate at depressed values. In such cases, the income tax-free proceeds from life insurance can protect the heirs from the distressed sale of assets to pay estate settlement costs.

Life insurance can also be arranged in an irrevocable trust to help reduce or eliminate estate taxes. For this reason, life insurance can be the essential element in an estate that enables the preservation of the other important assets.

Business reasons. Many partnerships and closely held corporations have agreements that provide for the purchase of the deceased's ownership in the firm from the heirs of the deceased partner or shareholder. It often is advantageous to fund such 'buy-sell' agreements with life insurance to guarantee the availability of funds for the transaction. By doing so, the corporation or surviving partners avoid the financial strain that may result from fulfilling the buy-out agreements. Many business owners also sign personally on business loans. This causes the loans to be called at their death and presents a liquidity crisis in the estate. Life insurance can be one of the most appropriate vehicles to prevent this.



Assessing the Options

Policy Selection

The purpose for the purchase will help determine the type of policy that will be selected. Crescent Wealth Management regularly makes use of the following types of life insurance policies:

Term insurance. This is best suited to solve a temporary need. For example, you can use the death benefits to provide enough funds for a college education or to pay off the mortgage on your house. Because it is death-only protection, it is less expensive and therefore, more attractive if you are relatively young.

Whole life insurance. These policies are more appropriate for older individuals with a permanent need. For example, whole life can be used to provide funds for paying estate taxes or buying a partner's business interest if your partner dies before you.

Universal life insurance. This is for those who want to maintain flexibility in both premiums and death benefits. It also is well suited if you want to build up cash values conservatively based off fixed interest rates.

Variable universal life insurance.¹ This is a permanent life insurance product which invests a portion of the premiums among a choice of investment options. The death benefit is payable as long as there is sufficient cash value to support the policy.

Second-to-die, or survivorship, insurance. These policies pay off only when the second spouse dies, and are most often used by couples to pay estate taxes. Because a properly structured estate plan can defer all taxes when the first spouse dies, estate liquidity insurance is not needed until the second spouse dies. Since it's based on the mortality of two lives instead of one, premiums are usually significantly lower than on a standard policy.

The Power of Affiliation

Crescent Wealth Management's Strategic Advantage

As an affiliate of National Financial Partners Corp. (NFP), Crescent Wealth Management is able to address the full spectrum of your insurance needs with the focused, individual attention of an independent firm. At the same time, we have relationships with multiple insurance companies with diverse strengths, and we share in the intellectual experience and technological capabilities of a leading insurance distribution firm in the United States. Through this affiliation, we can offer you:

Stringent carrier selection

NFP's overall strategy is to provide multiple company relationships. After carefully evaluating the top insurance companies in the world, NFP's distinguished consultants and staff choose a select group of carriers based on key criteria that include quality, market position, underwriting orientation and financial strength.

Each of these carriers maintains a dedicated resource unit to our business, which ensures that we can provide you with a high level of service. When the need for specialized solutions arises, NFP's relationship with companies beyond its core carriers helps to ensure that we can tailor solutions to meet your individual insurance needs.

Leading-edge technology tools

Using NFP's advanced decision analysis tools, Crescent Wealth Management can offer you a clear understanding of the conceptual goals underlying different types of policies. With NFP's specialized reporting system, you can link all your product decisions into an integrated reporting format that provides you with effective financial management data.

Collective strength and capabilities

Working with Crescent Wealth Management, you have access to state-of-the-art solutions and market-leading experience. As your needs, technology and regulations change, you can continue to count on us.

Underwriting Advocacy

A Critical Link in Optimizing Your Insurance Coverage

One of the most significant tools available to you as a Crescent Wealth Management client is access to NFP's competitive underwriting advocacy. Never before has a high level of advocacy been more essential. Insurance companies divide customers into many more risk categories than in the past and significant shifts in the reinsurance market have changed the dynamics of large-dollar cases. Within this increasingly complex life insurance market, you need an advocate who has extensive life insurance underwriting experience and detailed knowledge of carriers' retention limits and the reinsurance marketplace.

The impact of underwriting advocacy can include:

- Increased cash value
- Improved risk class
- Extending the maturity on a policy by getting the underwriting to fit the product
- Maximizing capacity to ensure that you receive the coverage you need
- Access to senior underwriting staff at insurance companies
- Waiving of requirements deemed unnecessary
- The ability to save you time by using your individual doctor's reports in lieu of life insurance medical exams
- Strategic timing on large cases



Focusing on clients' unique circumstances

The basis of insurance underwriting involves matching medical profiles and health histories of applicants with a specific risk class. But individuals rarely fit neatly into categories. At Crescent Wealth Management, we look at the entire picture, point out mitigating factors, and probe beneath the surface of lab reports and medical histories to help ensure that your risk ratings are based on your unique situation rather than how you fit into a statistical model.

Removing uncertainty from the underwriting process

As in all important transactions, information is power in obtaining the most affordable underwriting decision. Crescent Wealth Management's comprehensive action plan includes:

- Optimal selection of insurance companies based upon their experience or how amenable they are to underwriting specific circumstances, such as frequent foreign travel to countries deemed unsafe, high-risk hobbies or professions, and a wide range of medical impairments.
- Presentation of individual medical profiles and health histories of applicants and proactively providing the types of additional information that can help to mitigate concerns.
- The ability to gather additional information if the initial offer is not favorable.
- Close working relationships with the medical directors and senior underwriting staff at insurance companies.

Applying expertise of the reinsurance market

On large cases, primary insurance companies usually retain only a small portion of the insured amount that they underwrite. They need to 're-sell' the amount that exceeds their retention limit, based on pre-defined Automatic Reinsurance Limits. Within this highly complex framework, we have access to experts on the reinsurance marketplace who can help coordinate maximum capacity and negotiate on your behalf.

Taking Control

The Policy Analyst™ Process

Just as you should continuously monitor and occasionally reallocate an investment portfolio to reflect changing market conditions and changing needs, a life insurance portfolio requires similar attention. The performance of in-force policies has been impacted in recent years by falling interest and dividend rates or, in the case of variable contracts, by the bear market.

Plus, your life situation and risk tolerance may have changed since you last purchased life insurance. Your income and the value of your assets may have increased. Your family may have expanded, or perhaps you started a new business. New features, such as no-lapse guarantees and extended maturity riders that are available on newer products, may offer benefits that aren't included on the policies you currently own.

If you haven't taken a good look at your life insurance policies lately, you might be missing out on essential information about the performance of your policies and possible gains resulting from more current, cost-effective coverage.

Whether it's for your personal needs or for your business, a life insurance review is a critical component of a financial planning strategy. The objective is to ensure that your coverage is aligned with your current financial needs. It takes into account personally owned contracts, trust-owned contracts and employer-provided benefits to provide you with an unbiased assessment of the adequacy of your coverage.

It begins with some basic questions:

- Is your existing policy providing adequate coverage?
- Have the needs that promoted the purchase of your current policy changed?
- How is your policy performing relative to its original objective?
- Is it on track to meet intended goals?
- Are your insurance products among the most competitive and affordable on the market today?
- Has your health improved where current underwriting programs or enhancements in policy pricing may benefit you?

When considering a review it is important to be aware of potential pitfalls, including:

- The original policy cash value may be applied to first year expenses and commissions.
- Existing and new surrender charges may diminish policy value and extend beyond that of the original.
- Potential for higher premiums if health has declined.
- A new policy will typically have a new contestability period.

Crescent Wealth Management can provide you with a thorough explanation of how your policy has performed, projected cash values at designated intervals, and an assessment about the number of years that the policy will remain in force based on current assumptions. In cases where there is a clear advantage, we will also provide you with information on alternative policies and any unfavorable tax consequences caused by surrendering an existing policy.

Advanced Life Insurance Strategies

Crescent Wealth Management is positioned to help attorneys, CPAs, trustees and individuals with innovative estate planning tools. These tools can help both professionals and clients with advanced case design. These tools include:

Premium financing

The concept behind premium financing is to obtain a third-party loan to pay premiums on a life insurance policy, with the policy serving as the collateral. It can be a powerful tool to help clients achieve their estate planning goals without negatively impacting their existing assets or high-yielding investments or incurring taxes by the sale of assets to pay premiums.

Premium financing can be useful in estate planning, whether the policy is owned personally by the insured or by an irrevocable trust. An additional benefit of premium financing for policies held by individuals is that those policies may be protected from claims of individual creditors.

It also is valuable for business owners to fund executive benefits, including bonuses and non-qualified deferred compensation, as well as key person insurance, buy-sell agreements and split-dollar insurance.

Advantages

- No impact to current cash flow - You can purchase life insurance without having to impact current cash flow or liquidate existing investments (thus avoiding adverse tax consequences at liquidation).

- Positive Interest Rate Arbitrage - Premium Financing can produce positive interest rate arbitrage if the growth in policy cash value exceeds the interest charged on the underlying loan.
- Gift Tax Leveraging - You can maximize estate planning by using gift tax leveraging. If the policy is owned outside the insured's estate, Premium Financing could eliminate the need to gift the entire premium. Only the loan interest may need to be gifted annually; however, if the loan is structured so that interest accumulates, no gifting may be necessary.

Disadvantages

- Sophisticated Strategy - Premium Financing is a highly complex strategy and involves several risks
- Potential Gift Tax Issues - If the policy is owned outside the estate and the interest is paid annually via gifts to the trust, gift tax issues could arise if the loan interest exceeds the client's annual gift tax exclusions and lifetime exemption.
- Interest Rate Volatility - Fluctuations in future interest rates could have a major impact on the life insurance policy and underlying premium loan.

The professionals at Crescent Wealth Management can help explain the various programs and potential costs associated with this strategy.

Life Settlements

One of the most significant markets to emerge in many years, life settlements provide your high net-worth clients with a means to tap into unrealized assets within an existing life insurance policy. A life settlement is the sale of a life insurance policy for an amount greater than its cash surrender value. The proceeds may then be used to purchase other financial products, including more cost-effective life insurance, annuities, long-term care insurance, or investments.

Life settlements generally are appropriate for clients who are age 70 or older and are considering lapsing or surrendering a life insurance policy for its cash surrender value, or have a life insurance policy that is no longer needed for the reason it was originally purchased, such as:

- A buy/sell agreement where one or more of the owners is no longer in the business.
- A key person insurance policy on an individual no longer employed by the company.
- A policy purchased to pay estate taxes on an estate that has significantly reduced in value
- A universal life policy purchased in the 1980s, based upon the assumption that interest rates would continue in the double digits. With the current interest rate environment being significantly lower, the client now feels that he has no choice but to surrender the policy as the premiums have become prohibitively expensive.

Additionally, if new coverage is being considered and a Section 1035 exchange is being contemplated, a life settlement should be evaluated, as the after-tax value of the settlement may exceed the economic value of the 1035 exchange.² It is important to take note of any fees, expenses, or possible tax consequences associated with life settlements, as well as any ongoing obligations asked of the settlement provider.



LIFE INSURANCE CAN BE A POWERFUL TOOL TO

PROTECT AND PRESERVE YOUR ASSETS.

CRESCENT WEALTH MANAGEMENT CAN HELP CRAFT

A CUSTOMIZED SOLUTION TO MEET YOUR

SPECIFIC FINANCIAL GOALS.

¹ Variable products are sold by prospectus only. You should consider the risks, charges and expenses before investing in a variable product. The prospectus contains this and other information about the underlying funds of variable products and you can obtain a prospectus from your financial advisor. Read the prospectus carefully before you invest.

² 1035 rules on exchanges are complex in nature. You should not cancel your old policy until the “new” policy has been delivered.

