Fortune Strategies™

Life Insurance as an Alternative Asset

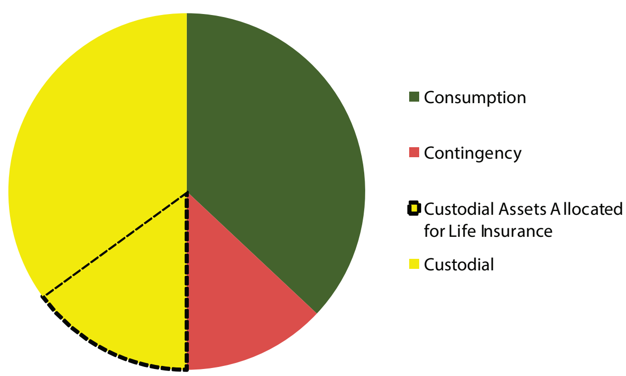
You may enhance the overall after-tax returns and reduce the risk of your family's portfolio by investing in a tax-advantaged asset that is not correlated to the stock or real estate markets. After-tax internal rates of return up to 20% or more per year are possible with some guaranteed second to die life insurance designs.

A Legacy Restored

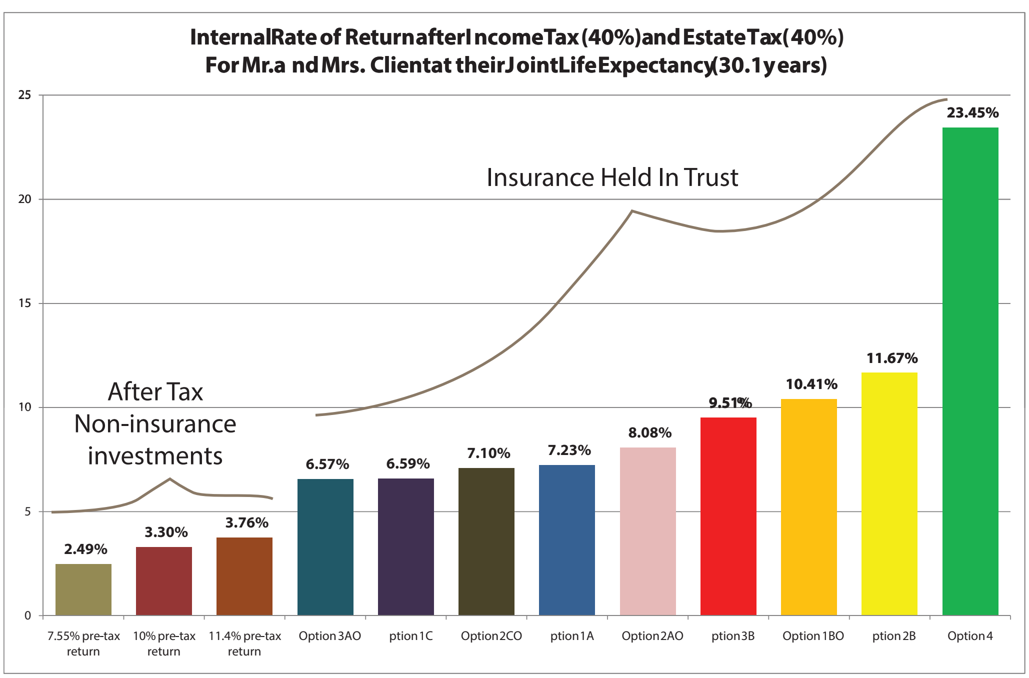
Facts: A wealthy couple was upset that the legacy they had hoped to leave their children had been reduced significantly by recent market turmoil. Fortunately, the decline in their net worth did not threaten their lifestyle.

Problem: The couple wanted to restore their children's inheritance with an investment that (1) was safe, (2) tax advantaged, (3) not correlated to the stock or real estate markets, and (4) provided an attractive after-tax internal rate of return.

Solution: After analysing the couple's assets, we classified them into three categories: (1) The ***"Consumption"*** assets that were necessary to maintain their lifestyle, (2) the ***"Contingency"*** assets that they may need to call upon if their ***"Consumption"*** assets proved inadequate and (3) the remaining "Custodial" assets which they did not need to maintain their lifestyle.

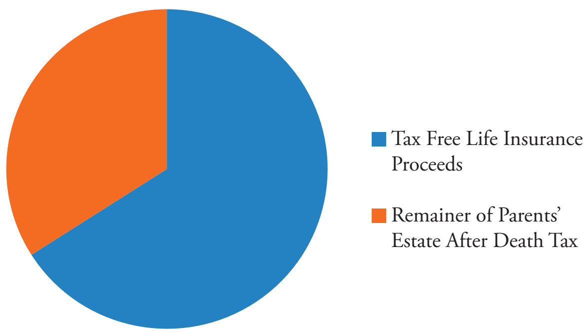


We next showed the couple second to die life insurance options that provided the following range of after-tax internal rates of return.

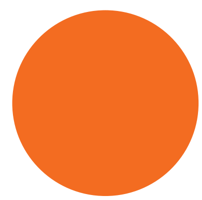


After reviewing the various options, the couple elected to devote a portion of their "Custodial" assets to acquire life insurance and entered into a private non-equity split dollar arrangement with their irrevocable grantor trust for the benefit of their children. The couple not only received back all of the premiums they paid during their lifetime, but their trust earned an after tax internal rate of return of 23.45%

Composition of Childrens' Inheritance



With Insurance



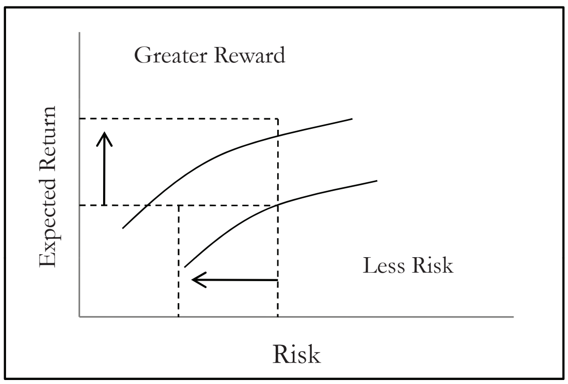
Without Insurance

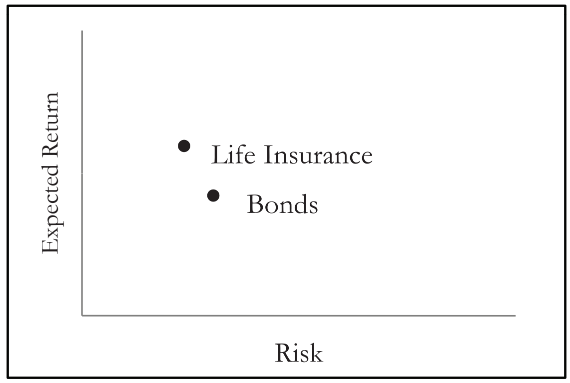
When the couple dies, the life insurance proceeds will be free of both income and estate taxes. Even though the amount devoted to the insurance was only a small portion of the couple's net worth, it will substantially increase the amount of the after-tax inheritance for the children.

Conclusion: By devoting only a portion of their ***"Custodial"*** assets to the purchase of life insurance, our clients were able to restor their children's lost legacy without compromising their lifestyle.

Modern Portfolio Theory

The inability to efficiently re-allocate diminishes the value of life insurance under Modern Portfolio Theory, even though the death benefit of life insurance provides a greater return with less risk (volatility) than a comparably rated bond portfolio.



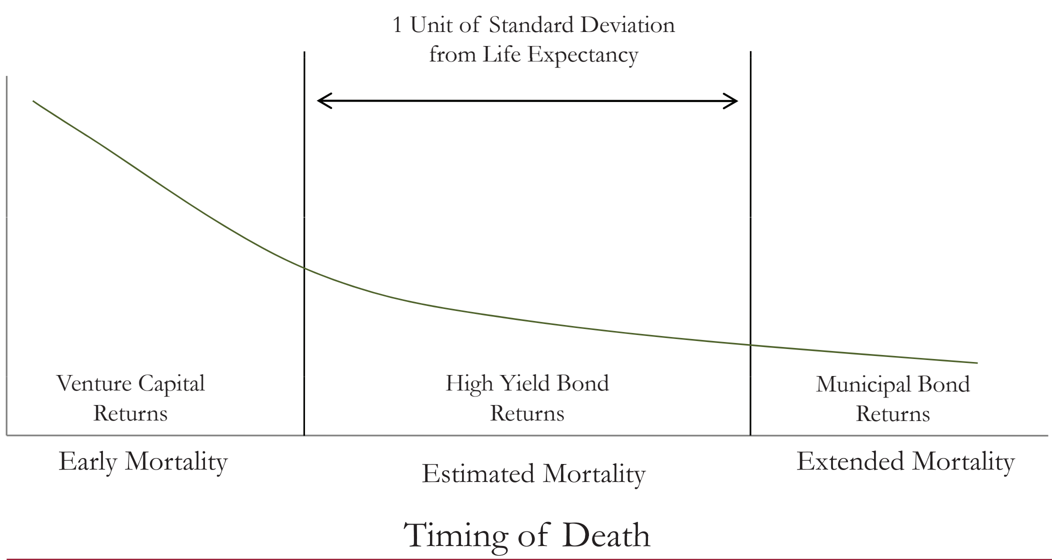


Ignoring the re-allocation constraints, including life insurance as a portfolio asset is expected to shift the efficient frontier.

**Please note that placement of Life Insurance, Bonds and Efficient Frontier is intended only to represent relative risk-reward relationships and should not be construed as a mathematical measurement. Using diversification / asset allocation as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss in declining markets.*

Life Insurance Return Characteristics

The return on life insurance is most appropriately measured as the return on the death benefit around the period of time when it can reasonably be expected to be received.



FORTUNE STRATEGIES™

Fortune Strategies has all of the advantages of a small boutique firm offering customized solutions to clients as well as all of the advantages of the resources of a large firm through their strategic alliances.

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Patricia Tanner, CLU, ChFC, CFP®

Patricia Tanner, founder of Fortune Strategies, specializes in multi-generational wealth transition planning for both personal and business wealth for families that reside in the United States and abroad. Patricia has been creatively and sensitively providing solutions to each client's unique wealth transition concerns for more than 45 years.

Patricia received her Bachelor's degree from Brigham Young University, Provo, Utah and her Master's degree from San Jose State College, San Jose, California. After graduate school, she began her career in insurance and financial planning in San Jose, California.

After many years as a career agent, Patricia served in various positions in agency management with Metropolitan Life and Northwestern Mutual Life. Between 1982 and 1991, Patricia lived and worked in Europe and maintained offices in Lugano, Milan, Florence and Rome dealing with international estate planning issues and insurance planning for families with assets in more than one country.

Upon returning to the states, Patricia located her practice again in the San Francisco Bay Area; initially she developed a network of associated attorneys and CPAs who jointly offered "Beyond the Living Trust" seminars and workshops. Eventually her practice evolved into a referral from advisor (CPA and attorneys) practice only.

Recognized as an industry leader, Patricia has given scores of lectures on the subject of estate planning, business succession planning and wealth transition to groups in Milan, Paris and Brazil in addition to those given in the United States. Patricia has been a presenter at the International Forum on such topics as developing alliances with CPA's, attorneys, and professional advisors. She has taught a number of continuing education workshops for CPA's and attorneys.

Today, Patricia continues to work with families in the United States and abroad through her offices in Walnut Creek, California and Miami, Florida.

Patricia resides in Alamo, California with her husband Bill. Bill and Patricia are avid scuba divers and travel the world pursuing their hobby.

experience

"Experience is the hardest kind of teacher. It gives you the test first and the lesson afterward." - Anonymous

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