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The Control Factor

Why do successful people buy life insurance as part of their estate, business continuation and charitable plans? If you know why successful people use life insurance, you can help your clients understand why they should also use it.

Consider your client's feelings when you tell him that when he dies, loved ones may be faced with some very large financial obligations. Those obligations may include estate taxes, payments due under a buy-sell agreement or money needed to satisfy a lifelong commitment to a charity.

Three choices the family has

When those bills come due, the family will need cash. Where will it come from? The family may have only three choices:

- Use whatever cash they have.
- Sell things to raise the money.
- Borrow the money.

And the choice your client has

There is another source of money—but only if your client arranges now for someone else to give the family the cash they need to pay the bills.

In other words, your client can find someone who will step in with a check when the family needs it most. Who would do such a thing for your client's family? A life insurance company, of course. Life insurance can help solve your client's problems.

The difference between the family's choices and the one your client has

People with estate tax problems are successful—that's one reason they were able to accumulate the wealth that is causing the "problem." It's why they have an estate tax bill looming in the future. It's probably part of why they want to leave something to charity.

They also share some character traits with other successful people. They tend not to procrastinate. They don't make others fix problems they caused (including "problems" like an estate tax bill). And they tend to attack the most important problems first.

Think of the three choices the family will have. Who's taking care of the problem? The kids may be, because the parent is not arranging for the money to be there to take care of the problem.

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With life insurance, who's taking care of the problem? Your client is, because your client arranges now to make sure cash is available when the children need it. If your client is a successful person, this fourth option is most consistent with the way your client otherwise lives and does things.

The biggest part of the problems we've been talking about can be solved with cash: cash to pay the estate tax; cash so a business interest can be bought; cash to create that charitable legacy. Life insurance delivers the cash when the family needs it.

Is cash the complete solution? Of course not. Planning is about more than just cash. It also involves deciding who should get the things your clients own, when they should get them and whether any special management is needed. Those questions take time to answer, and the plans needed to deal with them take time to develop and set up. Cash is, however, often the biggest issue. Once your clients solve that issue, they can leisurely work on all the others. And, even if they never get around to doing anything else, the top priority will have been taken care of—again consistent with how successful people live their lives.

Does your client want to take care of the problem or let his children solve it? Does your client deal with problems now, or does he stand by and let others take care of them in the future? (Assuming that they can take care of them at all by then.) Which approach is most consistent with how your client handles other issues in life?

The real reason people buy life insurance

Financially, using life insurance will often make the most sense. And it certainly fits in with how your client thinks and acts in other areas of his life. But as compelling as those reasons may be, they are not the “real” reason people with estate and business planning needs buy life insurance

If your clients are fortunate enough to have a big estate tax problem, they will probably hear about a wide variety of estate planning techniques. They'll look at, study, think about, and talk with their friends about GRITS, GRATs, GRUTs, CRATs, CRUTs, FLPs, and all manner of alphabet soup. They'll learn about private annuities, dynasty trusts, and so on and so forth.

Do you want to know a secret about all these very sophisticated tools?

There's a lot of talk about them, but they are rarely used.

To understand why this is so, you must understand a basic principle of estate taxation. If you own something when you die, your family pays tax on it. As a result, most estate planning tools try to take things out of your hands and put them into the hands of someone else. Why? If you no longer own something, there is no tax when you die.

If they don't take ownership away from you, these tools try to keep future growth from falling into your hands. In other words, you get to keep the business, the real estate, the stocks—but future growth goes to someone else. If what you own doesn't grow, neither does your estate tax problem.

Ultimately the cost of avoiding estate taxes is giving up control. That's the bottom line. And that brings us to another common characteristic of successful people—they hate to give up control. That's why there is so much talk and so little action.

It is also why life insurance is such an attractive alternative; it provides the cash needed to help solve these problems without giving up control. Help your clients to understand that there's a cost either way. If they use those sophisticated tools, they lose some degree of control. If they use life

insurance, the cost is the premiums they will pay. The question then becomes not whether the life insurance premiums are too high but whether those premiums are an acceptable cost in order to maintain 100% control.

Help your clients understand that sometimes it's better to accept the obligation to pay tax—and with it the corresponding benefit of being able to continue to control what they own.

If the premium needed to provide the cash to pay the taxes (or to fund the buy-sell or pay for the charitable gift) is \$10,000, the question your client must ask himself then becomes, "Is it worth \$10,000 to be able to keep absolute control over the things I own? Am I willing to trade \$10,000 for control, for the knowledge that almost all of my problem has been taken care of, and for not having my life complicated with trusts and partnerships and other things I'd really rather do without?"

We think you – and your clients – will discover it's an attractive trade off. They are keeping control by buying life insurance.



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