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HOUSTON BUSINESS AND ESTATE PLANNING COUNCIL

Life Insurance: *A Strategic Tool in the Toolbox*

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The information in the following charts is taken from sources which we believe are reliable, but there is no guarantee as to its accuracy. Product guarantees, including the death benefit no-lapse guarantees, are subject to the claims-paying ability of the issuing insurance company. Any quotes provided represent a point-in-time. Actual pricing will vary based on a number of factors, including but not limited to changes in rates by individual carriers, discontinuation or replacement of products, and/or changes in the age(s) and/or underwriting status(es) of the insured(s). Full illustrations, which contain important policy terms and conditions, are available upon request.

The information in the following charts is intended solely for information and education purposes and is not intended for use as legal or tax advice.

Reference to any specific tax or other planning strategy, process, product or service does not constitute promotion, endorsement or recommendation by RockBridge Group or its representatives.

Taxpayers should consult their individual legal and/or tax advisors for specific legal or tax advice.

Important Disclosures

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Variable life insurance products are long-term investments and may not be suitable for all investors. An investment in variable life insurance is subject to fluctuating values of the underlying investment options and entails risks, including the possible loss of principal.

Variable Universal Life insurance combines the protection and tax advantages of life insurance with the investment potential of a comprehensive selection of variable investment options. The insurance component provides death benefit coverage and the variable component gives you the flexibility to potentially increase the policy's cash value.

The purpose of this illustration is to show how the performance of the underlying investment accounts could affect the policy cash value and death benefit. This illustration is hypothetical and may not be used to predict or project investment results.

The policy values reflect current policy charges, current cost of insurance rates, current mortality and expense risk charges, average fund expenses and the stated hypothetical gross rate of return.

The policy values are hypothetical for illustration purposes only and may not be used to project or predict investment results. Policy values will vary based on the actual performance of sub-account investments selected, actual insurance charges over the life of the plan and the timing of premium payments.

Please refer to the attached illustrations for illustrated values assuming maximum policy charges and a 0% return.

Loans and partial withdrawals will decrease the death benefit and cash value and may be subject to policy limitations and income tax.

Insurance illustrations assume an average sub-account allocation. Not valid without complete insurance illustration and current prospectus. This supplemental illustration is hypothetical and may not be used to predict or project future performance. See original illustration for investment and insurance policy assumptions.

The IRR on the death benefit is equivalent to an interest rate (after taxes) at which an amount equal to the illustrated premium payments could have been invested outside the policy to arrive at the death benefit of the policy.

The IRR on the cash surrender value is equivalent to an interest rate (after taxes) at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the cash surrender value of the policy.

Investors should consider the investment objectives, risks, charges, and expenses of any variable life insurance product carefully before investing. This and other important information about the investment company is contained in each product's prospectus, which can be obtained by calling RockBridge Group at (205) 623-4178. Please read it carefully before you invest.

Securities Offered Through M Holdings Securities, Inc. A Registered Broker/Dealer, Member FINRA/SIPC. RockBridge Group, LLC is independently owned and operated.

File # 3056058.1

RockBridge Group and M Financial

More than Proprietary Products

- RockBridge Group is an independent firm, with access to the broad insurance marketplace.
- It is a Member Firm of M Financial Group, the leading life insurance distribution and service organization for UHNW families.
- Guided by its Core Value *To Keep Clients First* M created an unmatched suite of solutions for the families it serves:
  - *Proprietary products at a lower cost per million.*
  - *MAGNASTAR Private Placement Life Insurance.*
  - *Concierge underwriting.*
  - *Additional capacity through M Reinsurance.*
  - *International capabilities and expertise.*
  - *Relevant intellectual capital and research.*
- 2022 M Financial Group results:
  - *$194 Billion life insurance in-force.*
  - *$44 Billion cash value in-force.*
  - *$75 Billion reinsurance face amount.*
  - *$1.7 Billion sales measured by first-year premiums.*
  - *~$500 Million death benefit paid by M Life.*
  - *>$200 Million in pricing improvements since 1996.*

RockBridge Group

- Some of America's most successful families have trusted RockBridge to provide liquidity for generational planning through life insurance.

- Our families' needs are fundamentally different from the mass market of insurance buyers.

- With expertise in accounting, finance and law we address those needs with understanding, confidence and proprietary tools.

Edmund Perry, J.D.

- *Sr. legal counsel, NYSE energy company.*
- *Sr. officer, NYSE life insurance company.*
- *Yale Law School (J.D., 1985; business & tax concentration).*
- *Washington & Lee University (B.A., English,1982; first in class; Valedictorian).*

Edmund resides in Birmingham, Alabama with his wife, Ann. They have three adult children.

Preston Sartelle, C.F.A.

- *CFA Charter Holder.*
- *Accountant, Asea, Brown, Boveri, Spain and Bahamas.*
- *Washington & Lee University (B.S., Accounting, 1999).*

Preston resides in Houston with his wife, Kristin, and their three delightful children.

Edmund and Preston are registered representatives of M Holdings Securities, Inc. RockBridge Group, LLC is an independently owned & operated third party provider.

If You Don't Remember Anything Else From Today….

- Life insurance is just a tool in the planner's toolbox.

  → *Anyone who says otherwise is selling.*

- It is contractual liquidity:

  - *Favorably priced compared to alternatives;*
  - *Offering early leverage and a long-term positive ROI;*
  - *With surprising flexibility.*

- Significant advantage can be gained from strategic:

  - *Underwriting; and*
  - *Funding.*

Contents

- Strategic Underwriting – *How to Hold the Handle, Not the Blade.*
- Strategic Funding – *Is Split Dollar Safe Now?*
- Case Studies.

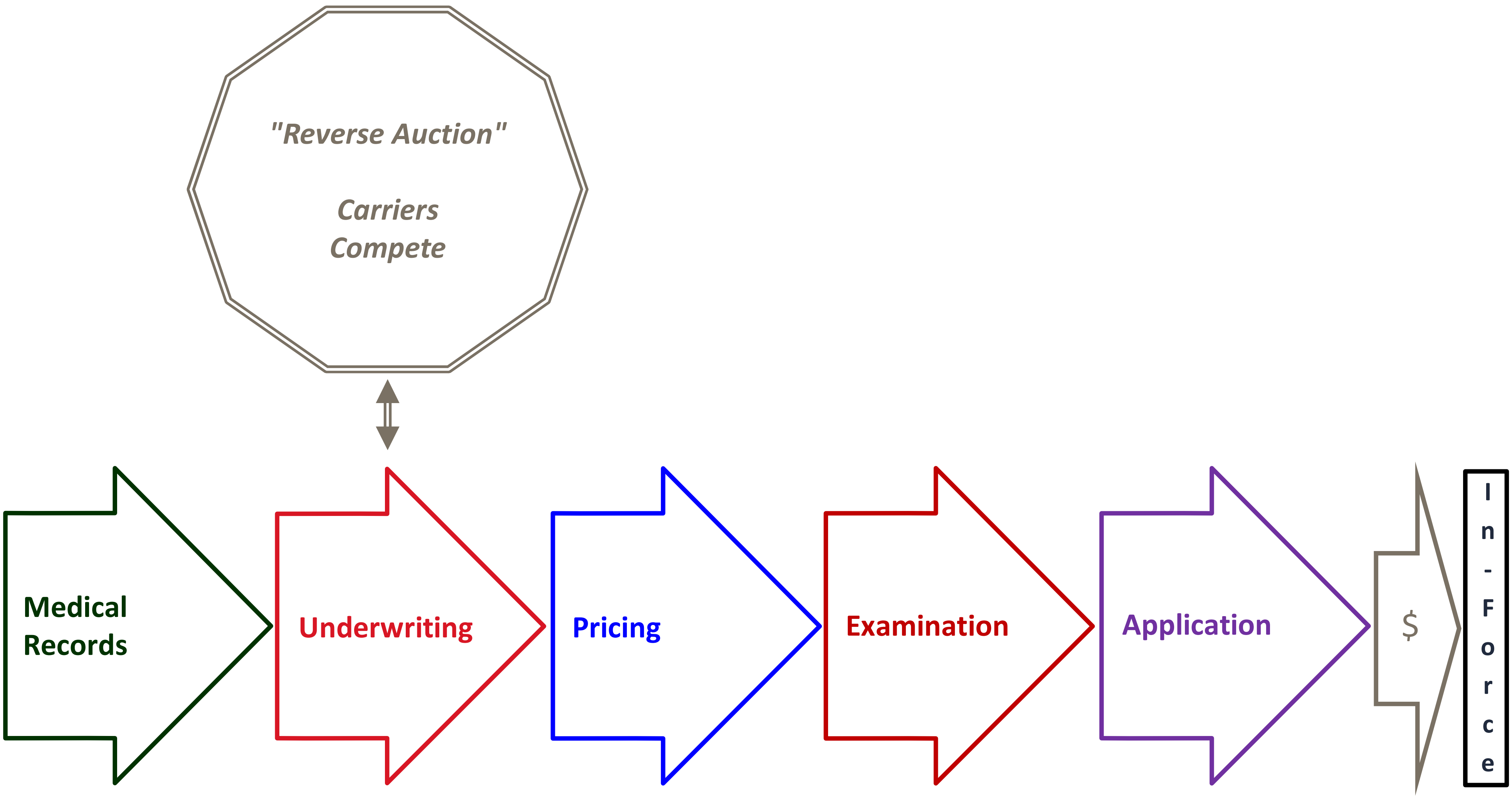
Strategic Underwriting

Holding the Handle, Not the Blade

Negotiation
has been compared to
struggling for control
of a knife.

Advantage comes from
holding the handle of the knife …
not the blade.

Holding the Handle – *Step 1*



Holding the Handle – *Step 2*

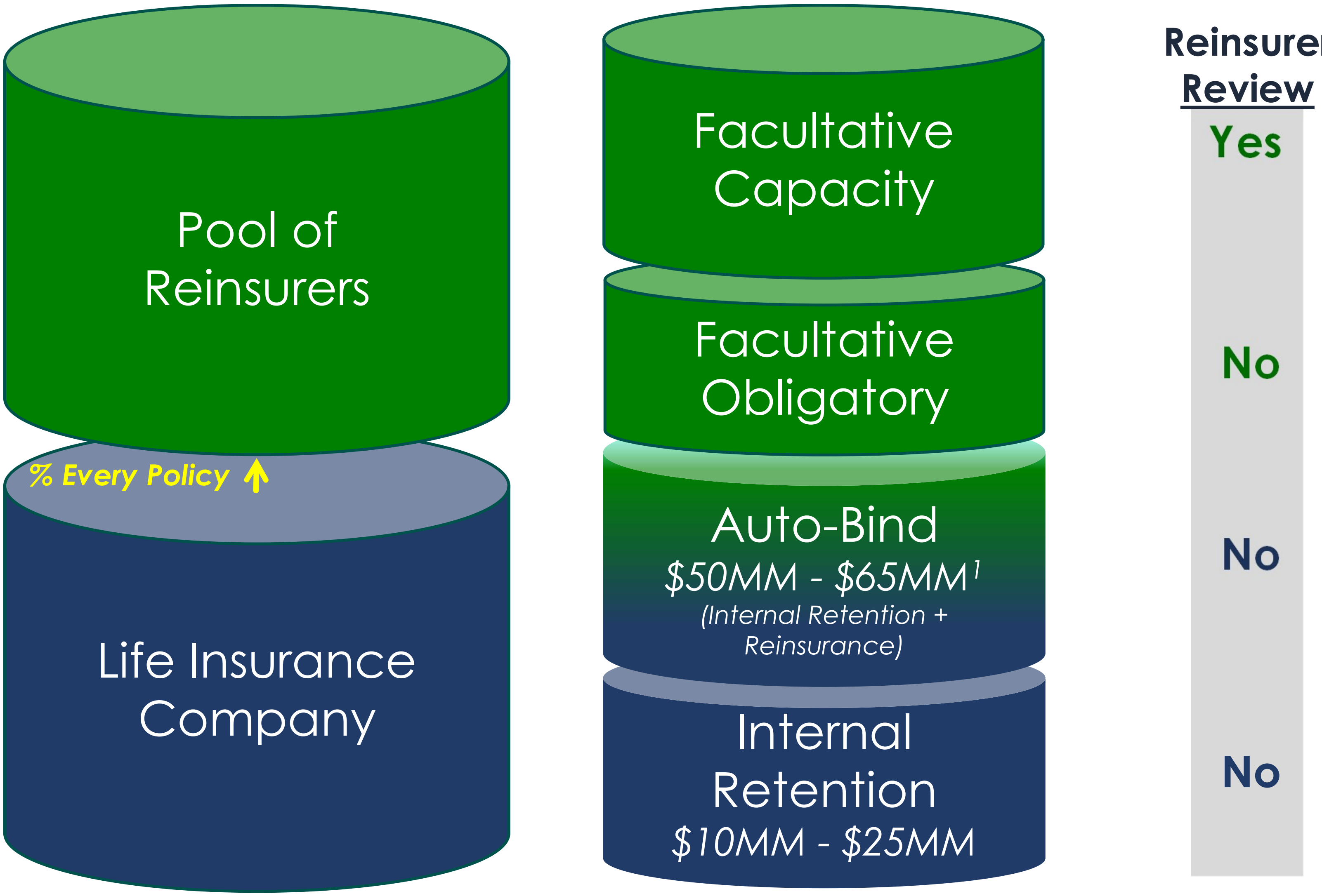
	Carrier 1	Carrier 2	Carrier 3	Carrier 4	Carrier 5	Carrier 6	Carrier 7
Mr.	Super Preferred Non-Smoker	Preferred Non-Smoker	Preferred Plus Non-Tobacco	Preferred Non-Tobacco	Preferred Non-Tobacco	Preferred Non-Nicotine	Preferred Plus Non-Tobacco
Mrs.	Standard Non-Smoker	Preferred Non-Smoker	Standard Non-Tobacco	Uninsurable	Uninsurable	Standard Plus Non-Nicotine	Standard Non-Tobacco

Based on review of medical records and exam.
Formal offers subject to application and underwriting.

REVISED OFFER BETTER THAN ORIGINAL
REVISED OFFER WORSE THAN ORIGINAL
NO CHANGE FROM ORIGINAL

Decline	*Uninsurable*	*Table 1, 2 …* *Table A, B…*	*Standard* *Non-Tobacco*	*Standard* *Plus*	*Preferred*	*Preferred* *Plus*	*Best* *Class*
Decline	*Uninsurable*	*Table 1, 2 …* *Table A, B…*	*Standard* *Tobacco*		*Preferred* *Tobacco*		

Holding the Handle – *Step 3*



[1] *Subject to $65 Million "Jumbo Limit" equal to the sum of in-force plus applied-for with all carriers. An application with one carrier can tie up capacity with multiple reinsurers.*

At age 70 or age 75, depending on the carrier or reinsurer, Internal Retention, Auto-Bind and Facultative capacities are cut.

Strategic Funding

Is Split Dollar Safe Now?

Private Non-Equity Split Dollar

- The frictional cost of moving resources into trust to pay premium can be mitigated with planning.

- Private, Non-Equity Split Dollar *(PSD)* is a flexible, relatively conservative and cost-effective tool to fund the purchase of significant life insurance coverage.

- PSD can be especially useful for families that

  - *Need to preserve liquidity.*
  - *Have legacy assets (such as family-owned businesses, real estate, ranches) or illiquid investments.*
  - *Need to plan without sole reliance on annual exclusion gifts or federal gift / GST exclusions.*
  - *Are constrained by structural requirements, like limitations on distributions.*

PSD Basics

- In a PSD Arrangement (PSDA), the cost of purchasing life insurance is shared between a Grantor (typically the insured) and his or her irrevocable life insurance trust (ILIT).

- The basic structure is for

  - *Grantor to pay the life insurance premiums.*
  - *Grantor to retain a right to repayment upon the termination of the PSDA.*
  - *ILIT to retain any remaining policy benefits after repayment of Grantor.*

- Under the 2003 Final Regulations, all PSDAs fall under either the *Economic Benefit Regime* or the *Loan Regime*.

Intergenerational Split Dollar

- Intergenerational Split Dollar (ISD) is a variation on traditional PSD.
- Unlike a traditional PSDA, in an ISDA the life insurance insures the life of G1's child, a child's spouse or more remote descendants (G2), not G1's own life.
  - *ILIT beneficiaries are typically G2 or G2's descendants.*
- ISDAs generally assume that:
  - *The gift taxation of G1's premium payments is governed solely by Federal split-dollar regulations, which deem the value of the Economic Benefit to equal the cost of one year's Term insurance.*
  - *The present value of the reimbursement due to G1 for the premium payments is subject to adjustment (discount), because it likely will not be repaid until the death of the insured child, many years later and likely after the death of G1.*

Economic Benefit ISDAs – *Recent History*

- The IRS challenged essentially every aspect of ISDAs in three recent cases:
  - *The Estate of Cahill*
  - *The Estate of Morrissette*
  - *The Estate of Levine*
- Litigation dragged on for years, causing a chill on split-dollar planning as a whole.
- The IRS argued a laundry list of alternative theories for why the life insurance cash value and/or death benefit should be included in the G1 taxable estate.
- *Cahill* settled; *Morrissette* and *Levine* were decided.

Economic Benefit ISD – *Recent History*

- In its 2021 final decision in *Morrissette* the court upheld the estate's argument that:

  - *The value of the annual gift was the cost of current Term insurance.*
  - *The ISDA should be governed by the 2003 Economic Benefit Regime Split-Dollar regulations – i.e., the safe harbor of complying with the 2003 regulations was affirmed.*

- Further, the *Morrissette* court:

  - *Disagreed with the IRS's claim that the entire death benefit or undiscounted cash value should be included in the estate.*
  - *Affirmed the propriety of a valuation discount on the ISDA reimbursement receivable, substituting a reasonable rate in place of the excessive discount claimed by the taxpayer.*

Estate of Marion Levine

- In 2022, the Tax Court issued its opinion in *The Estate of Marion Levine v. Commissioner*.
- *Levine* is the first case in which the Tax Court ruled against the IRS on all counts related to an ISDA.
- The Tax Court attributed the outcome in *Levine* to a number of critical differences between it, on the one hand, and *Morrissette* and *Cahill* on the other.

Estate of Marion Levine – *Summary Facts*

- Pursuant to an ISDA, Marion Levine advanced $6.5 Million to an ILIT to purchase a single-premium survivorship policy on the lives of her daughter and son-in-law.

- Based on the $6.5 Million advance, Ms. Levine reported:

    - *$2,644 (the cost of one-year current Term insurance) as the taxable Economic Benefit.*
    - *$2.1 Million present value of the Economic Benefit receivable.*

- The Tax Court upheld both amounts and offered in its opinion five critical elements that it deemed persuasive in ruling in favor of the estate.

Lessons from *Levine*

1. Valid Purpose. A PSDA should be structured to accomplish specific and compelling family legacy or business planning goals – not to avoid tax.

2. Financial Suitability. PSDAs are generally suitable for taxpayers with a current or projected net worth in excess of lifetime exclusion.

3. No Strings. G1 should not retain a right to cancel or surrender a life insurance policy owned in the ILIT, either alone or with the trustee's consent.

4. Independent Fiduciaries. ILIT trustee(s) should be independent with a clear, distinct fiduciary duty to the ILIT beneficiaries.

5. Timing. To avoid red flags around last-minute death-bed planning, ISDAs should be developed and implemented while G1 is in good health *(to the extent possible!)*.

PSD vs ISD

- Building on the foundation of the 2003 Regulations, *Morrissette*, *Cahill* and *Levine* provide an excellent road map for successful Split Dollar planning – PSD and ISD.

- For families with significant net worth and legacy planning still to be done after the use of available lifetime exclusions – especially families facing liquidity challenges – split-dollar planning can facilitate valid planning objectives with minimized transfer tax drag.

- The IRS has stated its intention to continue challenging aspects of split-dollar planning.

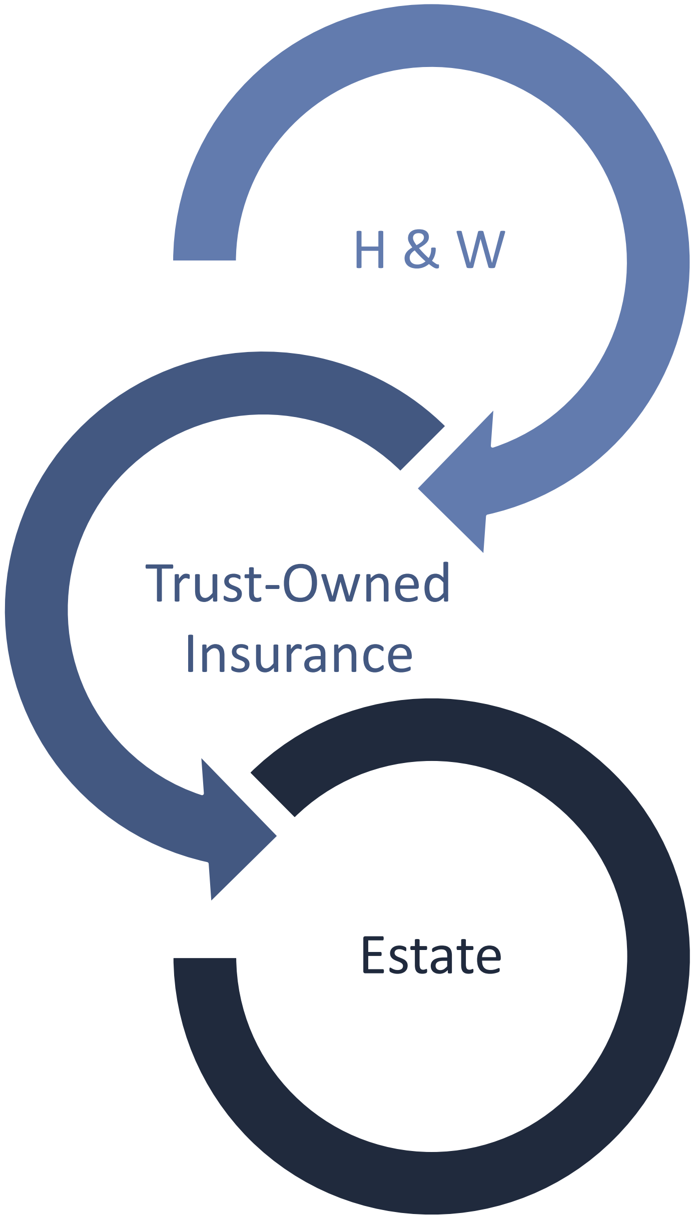
- Careful planning, documentation of why each step is appropriate and – perhaps most importantly – common sense are essential to success. *Hogs will continue to get slaughtered.*

Case Studies

Case Study 1: Form Follows Function

- RockBridge was engaged by a West Texas family whose accountant recommended at least $100 Million in contractual liquidity to offset its estate tax exposure.
- The family was extremely liquid already and questioned the accountant's advice.
- So, using the same policy, RockBridge showed three alternative designs to accomplish different goals.

Design 1: Liquidity for Estate Tax Without Disrupting Core Strategies



Transfer Cash/Income-Generating Property to Trust
Use remaining exemption?
Move discounted assets?

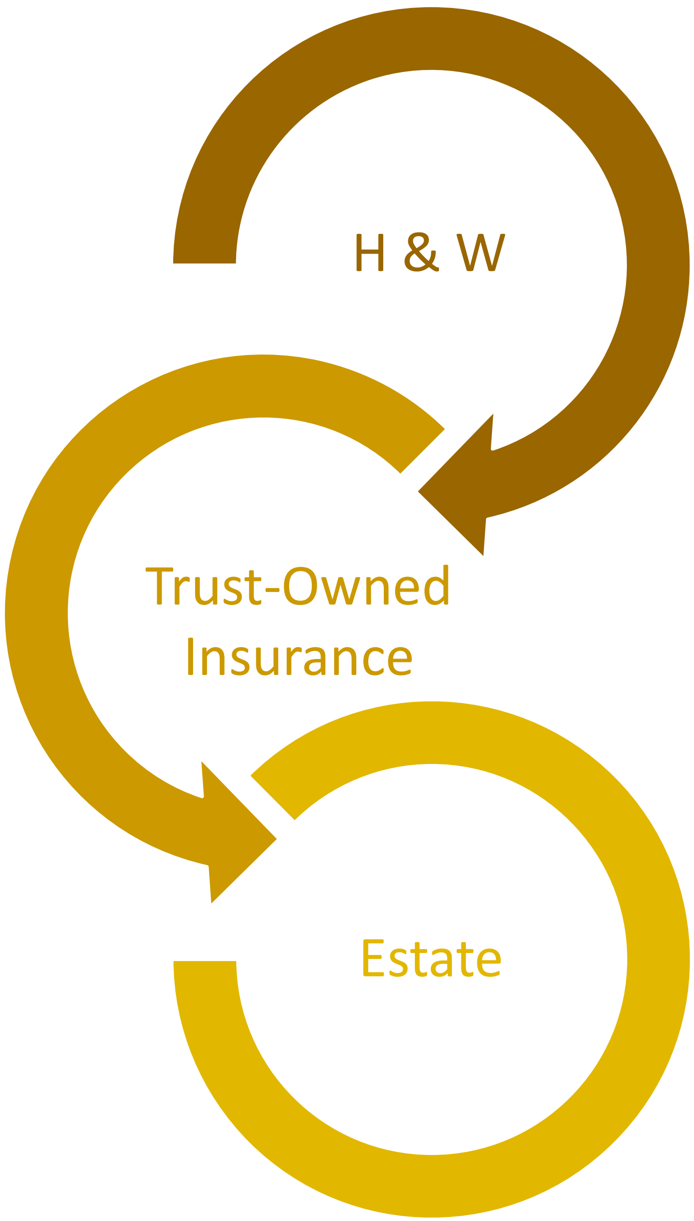
Day 1 Leverage / Appreciation Out Of Estate / Tax-Deferred Gain

Trust loans cash to or purchases discounted assets from estate to provide liquidity to offset estate tax

Design 1: Liquidity for Estate Tax Without Disrupting Core Strategies

			Guaranteed Crediting Rate Guaranteed Maximum Charges		Non-Guaranteed Crediting Rate Current Charges				
Year (1)	Age (EOY) (2)	Annual Premium (3)	EOY Net Surrender Value (4)	Death Benefit (5)	Accumulated Value (6)	EOY Net Surrender Value (7)	Death Benefit (8)	Surrender Value IRR (9)	Death Benefit IRR (10)
1	74-65	(1,657,025)	0	100,000,000	983,919	100,083	100,000,000	-93.96%	5934.91%
2	75-66	(1,657,025)	23,125	100,000,000	2,099,539	901,100	100,000,000	-60.90%	628.45%
3	76-67	(1,657,025)	323,093	100,000,000	3,282,107	1,760,150	100,000,000	-43.58%	253.82%
4	77-68	(1,657,025)	601,596	100,000,000	4,534,472	2,756,711	100,000,000	-32.14%	146.39%
5	78-69	(1,657,025)	980,631	100,000,000	5,859,227	4,131,341	100,000,000	-22.35%	98.71%
10	83-74	(1,657,025)	3,902,379	100,000,000	13,602,206	13,587,975	100,000,000	-3.64%	31.49%
15	88-79	(1,657,025)	1,895,219	100,000,000	25,621,370	25,621,370	100,000,000	0.38%	16.08%
20	93-84	(1,657,025)	0	100,000,000	39,124,288	39,124,288	100,000,000	1.56%	9.65%
21	94-85	(1,657,025)	0	100,000,000	41,746,173	41,746,173	100,000,000	1.62%	8.81%
25	98-89	(1,657,025)	0	100,000,000	51,605,881	51,605,881	100,000,000	1.65%	6.25%
30	103-94	(1,657,025)	0	65,000,000	62,404,705	62,404,705	100,000,000	1.43%	4.19%
31	104-95	(1,657,025)	##	##	64,323,464	64,323,464	100,000,000	1.37%	3.88%
35	108-99	(1,657,025)			72,383,306	72,383,306	100,000,000	1.20%	2.85%
40	113-104	0			75,632,251	75,632,251	100,000,000	1.03%	2.21%
45	118-109	0			36,246,229	36,246,229	100,000,000	-1.86%	1.83%
46	119-110	0			585,096	585,096	100,000,000	-21.05%	1.77%

Design 2: Seamless Fit With Tax Plan Plus Investment Upside



Transfer Cash/Income-Generating Property to Trust

Use remaining exemption?

Move discounted assets?

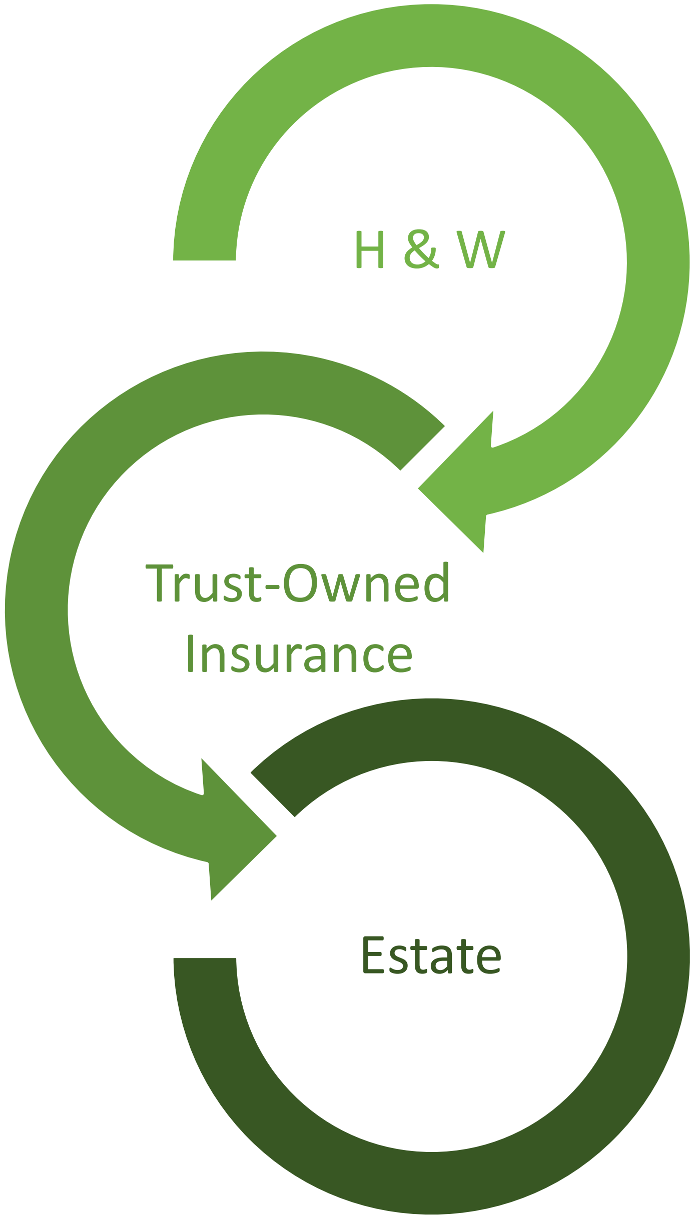
Day 1 Leverage / Appreciation Out Of Estate / Tax-Deferred Gain

Investment upside Paid to Heirs Tax Free

Design 2: Seamless Fit With Tax Plan Plus Investment Upside

			Hypothetical 8.00% (8.00% Net) Current Charges		*Hypothetical 7.00% (7.00% Net) Current Charges*		*Hypothetical 6.00% (6.00% Net) Current Charges*	
Year (1)	Age (EOY) (2)	Annual Premium (3)	EOY Net Surrender Value (4)	Death Benefit (5)	EOY Net Surrender Value (5)	Death Benefit (6)	EOY Net Surrender Value (7)	Death Benefit (8)
1	74-65	(8,850,351)	7,276,063	100,000,000	7,276,063	100,000,000	7,276,063	100,000,000
2	75-66	(8,850,351)	16,466,655	100,000,000	16,306,312	100,000,000	16,145,972	100,000,000
3	76-67	(8,850,351)	26,330,743	100,000,000	25,908,329	100,000,000	25,489,127	100,000,000
4	77-68	(8,850,351)	36,917,298	100,000,000	36,117,862	100,000,000	35,330,250	100,000,000
5	78-69	(8,850,351)	48,279,232	100,000,000	46,973,229	100,000,000	45,695,656	100,000,000
10	83-74	0	91,007,094	133,156,737	85,151,041	124,588,221	79,642,400	116,528,100
15	88-79	0	128,546,468	169,487,383	114,756,835	151,306,298	102,360,887	134,962,837
20	93-84	0	180,296,900	219,223,291	153,808,434	187,037,962	131,070,259	159,409,109
21	94-85	0	192,782,618	231,215,338	162,970,901	195,486,128	137,615,142	165,096,778
25	98-89	0	249,930,620	285,785,464	203,721,770	232,985,106	165,845,552	189,704,412
30	103-94	0	340,780,693	371,440,069	265,364,179	289,282,350	206,341,483	224,980,985
31	104-95	0	362,177,228	391,126,392	279,452,360	301,831,550	215,306,799	232,588,639
35	108-99	0	464,977,276	479,232,572	345,841,009	356,446,880	256,823,100	264,701,875
40	113-104	0	659,929,185	664,594,660	468,334,017	471,625,900	331,663,804	333,978,298
45	118-109	0	936,310,986	942,917,181	634,060,859	638,508,453	428,256,022	431,238,118
50	123-114	0	1,316,675,971	1,325,912,372	850,900,012	856,833,645	548,182,377	551,976,609
55	128-119	0	1,845,604,584	1,858,457,364	1,138,274,934	1,146,154,000	699,507,650	704,312,760
60	133-124	0	798,824,036	798,824,036	476,663,326	476,663,326	284,190,297	284,190,297

Design 3: Seamless Fit With Tax Plan Plus Enhanced Investment Upside



Transfer Cash/Income-Generating Property to Trust

Use remaining exemption?
Move discounted assets?

Day 1 Leverage / Appreciation Out Of Estate / Tax-Deferred Gain

Shortened Duration To Match Tax Exposure / Enhanced Investment Upside Paid to Heirs Tax Free

Design 3: Seamless Fit With Tax Plan Plus Enhanced Investment Upside

			Guaranteed 0.00% PY1 / Non-Guaranteed 6.28% PY2+ Current Charges			
Year (1)	Age (EOY) (2)	Annual Premium (3)	EOY Net Surrender Value (4)	Death Benefit (5)	Surrender Value IRR (6)	Death Benefit IRR (7)
1	74-65	(7,200,000)	3,534,105	238,769,739	-50.92%	3216.25%
2	75-66	(7,200,000)	9,974,111	238,769,739	-22.12%	428.04%
3	76-67	(7,200,000)	16,880,463	238,769,739	-11.83%	181.88%
4	77-68	(7,200,000)	24,213,687	238,769,739	-6.82%	106.21%
5	78-69	0	24,864,032	238,769,739	-4.14%	73.69%
10	83-74	0	30,480,623	238,769,739	0.67%	27.70%
15	88-79	0	38,191,152	238,769,739	2.11%	16.83%
20	93-84	0	37,882,173	238,769,739	1.49%	12.06%
21	94-85	0	34,686,932	238,769,739	0.96%	11.42%
25	98-89	0	100,001	238,769,739	-21.54%	9.39%
30	103-94	0	##	##	##	##
31	104-95					
35	108-99					
40	113-104					
45	118-109					
50	123-114					
55	128-119					
60	133-124					

Case Study 2: Life Insurance inside Special Needs Trust

- RockBridge has placed two cases for families wishing to fund the maintenance and support of special needs family members.

- Results:

  - *Deferred taxes on investment gains inside the special needs trusts ("SNT")* [1]*;*
  - *Asset shift by G1 grantors who funded the SNTs;*
  - *Funding for foreseeable inflation-driven increases in cost of support based on reasonable assumptions;*
  - *Cash distributions from insurance for support during the insureds' and the SNT beneficiaries' respective lifetimes; and*
  - *Significant wealth transfer from net death benefit proceeds after the SNT beneficiaries' deaths and upon the insureds' deaths.*

- In one of the cases, RockBridge was able to insure the joint lives of the two brothers of the SNT beneficiary in a second-to-die policy.

[1]*Assuming policy death benefit is paid, gain should never be taxed.*

Case Study 2: Support Model

Lump Sum Into Trust: ***6,233,220***

	Support Payments for Beneficiary		Trust			1-Year S&P 500 Indexed Account Non-Guaranteed 5.00% Rate and Current Charges				
	Year	Support	BOP Balance	ROI	EOP Balance	Annual Premium	Life Insurance Distributions	Loan Interest	Net Surrender Value	Death Benefit
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	2021	200,000	6,233,220	182,996	5,266,216	1,150,000	0	0	574,410	28,060,523
2	2022	204,080	5,266,216	140,984	4,057,200	1,150,000	0	0	1,643,640	29,058,970
3	2023	208,162	4,057,200	97,312	2,800,432	1,150,000	0	0	2,752,019	30,131,877
4	2024	212,325	2,800,432	51,922	1,494,192	1,150,000	0	0	3,930,198	31,274,584
5	2025	216,571	1,494,192	4,747	136,615	1,150,000	0	0	5,183,335	31,274,584
6	2026	220,903	136,615	0	1	0	79,958	0	5,289,703	31,193,652
7	2027	225,321	1	0	2	0	220,903	974	5,266,928	30,968,236
8	2028	229,827	2	0	2	0	225,321	4,513	5,250,505	30,733,276
9	2029	234,424	2	0	2	0	229,827	9,639	5,246,272	11,728,884
10	2030	239,112	2	0	2	0	234,424	14,980	5,234,513	11,473,915
15	2035	263,999	2	0	3	0	258,823	45,172	5,386,335	10,035,081
20	2040	291,476	3	0	3	0	285,761	59,650	5,874,471	8,369,388
25	2045	321,814	3	0	4	0	315,504	66,669	6,888,152	7,786,898
30	2050	355,308	5	0	5	0	348,341	74,515	8,281,933	8,869,153
35	2055	392,289	6	0	6	0	384,597	85,886	9,656,939	10,367,190
40	2060	433,119	6	0	6	0	424,626	142,423	9,784,585	10,635,956
43	2063	459,629	7	0	8	0	450,617	181,879	9,644,143	10,394,489
44	2064	468,822	10,394,497	357,655	10,292,523	0	0	0	0	0
45	2065	478,198	10,292,523	353,653	10,177,354	0	0	0	0	0
50	2070	527,969	9,571,002	325,922	9,379,307	0	0	0	0	0
55	2075	582,921	8,427,600	282,820	8,138,929	0	0	0	0	0
60	2080	643,592	6,751,326	220,333	6,340,687	0	0	0	0	0
65	2084	710,577	4,406,663	133,561	3,843,579	0	0	0	0	0
70	2089	784,535	1,228,501	16,537	475,886	0	0	0	0	0

Life Expectancy of Insured

Case Study 3:
Insurance Program Rescue and Rehabilitation

- RockBridge was engaged by a national private bank to assess and advise on an in-force $62.5 Million insurance program comprising five policies in three trusts.

  - *The insured wished to pay $0 further premium because*
    - *The $62.5 Million was essentially irrelevant to his net worth and*
    - *He intended to reduce or eliminate his federal estate tax exposure through tax planning and a program of charitable gifts;*
  - *The largest policy, for $42.5 Million, had been underfunded and would lapse before age 90 even on aggressive assumptions and a 5x increase in premium.*
    - *And even if death benefit were reduced.*
  - *The four smaller policies were being funded by policy cash values, either through premium offsets or policy loans, which were eroding value.*

Case Study 3:
Insurance Program Rescue and Rehabilitation

- The insured's CPA offered a plan to restructure the insured's wealth to achieve the planning objectives.
    - *He estimated it would require ten years to implement.*
- He asked whether the $62.5 Million insurance program could be restructured:
    - *To provide a more meaningful estate tax hedge during the planning window; and*
    - *Generate cash value sufficient for the insured to recapture his investment once the tax plan was complete.*

Case Study 3:
Insurance Program Rescue and Rehabilitation

- RockBridge replaced the $62.5 Million in-force program with $128.5 Million new coverage which:
  - *Required $0 future premium payments;*
  - *Was fully-guaranteed for 23 years;*
  - *Based on conservative assumptions would have more cash surrender value at year 20 than in year 1.*
  - *Was broken into 17 new policies, most of which were for $10 Million, to facilitate gifting.*

- Because the *in-force plus applied for coverage* exceeded $65 Million, facultative underwriting was required.
  - *Reinsurers disagreed over how to rate the insured; some required additional medical testing before making acceptable offers.*
  - *RockBridge closed the program in two tranches, the first using all capacity offered at good rating and without additional testing, and the second after completing the additional testing and achieving improved offers.*
    - *This two tranche approach caused the replacement policies to be backdated 13 months.*

Portfolio
As of April 25, 2023

Carrier (1)	Initial DB (Million) (2)	Policy # (3)	§1035 Cash (Million) (4)	Loan (5)
TRUST 1				
NML	$2.5	x784	$0.37	$3,627
	$7.5	x187	$1.08	$96,491
TOTAL	$10.0		$1.45	$100,118
TRUST 2				
NML	$7.5	x797	$1.06	$0
PL	$42.5	x130	$2.26	$0
TOTAL	$50.0		$3.32	$0
TRUST 3				
NML	$2.5	x201	$0.62	$43,166
TOTAL	$2.5		$0.62	$43,166
Total All Trusts				
	$62.5		**$5.40**	**$143,283**

Portfolio
After Placement of Tranche 1

Carrier (6)	Initial DB (Million) (7)	Initial Loan (8)	EOPY20 CSV (Million) (9)	Lapse (10)
TRUST 1				
Replacement	$42.0	$100,118	$2.52	Non-Gtd: EOPY 25-26 Gtd: EOPY 22-23
TRUST 2				
Replacement	$25.6	$0	$2.36	Non-Gtd: EOPY28 Gtd: EOPY 24-25
In-Force PL Policy xyz	$42.5	$0	$2.51	Non-Gtd: EOPY23 Gtd: EOPY9
TOTAL	$68.1	$0	$4.87	
TRUST 3				
Replacement	$3.0	$43,166	$0.89	Non-Gtd: EOPY30 Gtd: EOPY26
Total All Trusts				
PACIFIC LIFE	**$113.1**	**$143,283**	**$8.28**	

Portfolio
After Placement of Tranche 2

Carrier (11)	Initial DB (Million) (12)	Initial Loan (13)	EOPY20 CSV (Million) (14)	Lapse (15)
TRUST 1				
Tranche 1	$42.0	$100,118	$2.52	Non-Gtd: EOPY 25-26 Gtd: EOPY 22-23
TRUST 2				
Tranche 1	$25.6	$0	$2.36	Non-Gtd: EOPY28 Gtd: EOPY 24-25
Tranche 2	$57.9	$0	$4.70	Non-Gtd: EOPY 26-27 Gtd: EOPY23
TOTAL	$83.5	$0	$7.06	
TRUST 3				
Tranche 1	$3.0	$43,166	$0.89	Non-Gtd: EOPY30 Gtd: EOPY26
Total All Trusts				
PACIFIC LIFE	**$128.5**	**$143,283**	**$10.46**	

Case Study 4: $200 Million *"Planning Gap"* Insurance

- RockBridge was engaged by a national private bank to work with a young entrepreneur who had accumulated a significant net worth but done no tax planning.
- To *"plug the gap"* in his planning, the insured's team wanted to place $200 Million 20-Year Term.
- Because of the large coverage amount and the fact that carriers' reinsurance pools for Term insurance are different than for Permanent, placement was especially complex.
- RockBridge was able to arrange for $94.75 Million to be placed with a single carrier at Preferred Best pricing – *Tranche 1*.
- With Tranche 1 in-force, *Tranche 2* could place the remaining $105.25 Million from carriers and reinsurers based on their respective underwriting ratings to achieve the lowest cost-per-million of death benefit.

Case Study 4: Tranche 1

POLICY 1: CARRIER 1 AUTO-BIND	
65,000,000	Jumbo limit
(40,000,000)	In-Force Principal Life Policy #xyz
25,000,000	Auto-bind limit - *Reinsurers bound without independent review*

POLICY 2: CARRIER 1 INTERNAL RETENTION	
30,000,000	Internal Retention capacity
(1,250,000)	Internal Retention used in auto-bind
28,750,000	Internal Retention remaining after auto-bind

POLICY 3+ *(if rated other than Super Preferred)*: FACULTATIVE CAPACITY	
41,000,000	Reinsurers' independent review of formal application

CARRIER 1 TOTAL PROGRAM	
25,000,000	Policy 1: Auto-bind
28,750,000	Policy 2: Internal Retention
41,000,000	Policy 3+: Facultative Policies on Carrier 1's Paper
94,750,000	Carrier 1 Total

Case Study 4: Tranche 2

REMAINING M FINANCIAL CARRIER INTERNAL RETENTION		
20,000,000	Carrier 2	Standard
10,000,000	Carrier 3	Non-Smoker Plus
7,500,000	Carrier 4	Table 2
5,000,000	Carrier 5	Preferred
5,000,000	Carrier 6	Preferred
47,500,000		

REMAINING M FINANCIAL REINSURER CAPACITY		
23,250,000	Reinsurer 1	(Carrier 2)
10,000,000	Reinsurer 2	(Carrier 6)
10,000,000	Reinsurer 3	(Carrier 4)
10,000,000	Reinsurer 4	(Carrier 5)
7,500,000	Reinsurer 5	(Carrier 3)
1,000,000	Reinsurer 6	(Carrier 3)
1,000,000	Reinsurer 7	(Carrier 3)
62,750,000		

110,250,000	**Remaining M Financial Carriers and Reinsurers**
94,750,000	**Carrier 1**
205,000,000	**Total M Financial**

Worse Offer Post-Exam

Case Study 5: Third-Party Premium Financing

- We have recently been asked to advise on several in-force insurance programs – *which we did not place!* – that were funded using bank-loans.

- At a high level, this is what we are seeing:

  - *Short-term borrowing matched with long-term obligations;*
  - *Aggressive interest rate assumptions;*
  - *Uncapped interest-rate exposure;*
  - *Aggressive policy performance assumptions;*
  - *Growing collateral requirements outside the policy;*
  - *No exit other than death.*

- More than a few insureds have had no understanding of their exposure or how their program works.

  - *Including a 70+ year old who did not even realize she had borrowed $14 Million against her life insurance policy.*

Questions?

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