

5 Questions: Checklist for Life Insurance Evaluation

 AUCTORIS

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5 Questions:

1. How much life insurance is in force?
 - a) Who is insured
 - b) What is its purpose? Is the amount appropriate for the purpose?
 - c) What type of insurance? (term, whole life, universal life)

2. Who/What entity owns the policy?
 - a) Is the ownership consistent with the purpose?
 - b) Who pays the premium?

3. Who/What entity is the beneficiary?
 - a) Is this arrangement consistent with its purpose?
 - b) Is the policy a "split dollar arrangement"?
 - i. Is the arrangement backed with a legal agreement?
 - ii. Is the economic benefit being reported annually for tax purposes?

5 Questions (continued):

4. Premium payment/policy questions:
 - a. Are the premiums being deducted?
 - b. Can premiums be reduced?
 - c. Is a term policy, is the term period about to expire?
 - d. Is your term policy "convertible" (Could be beneficial if health situation changes)

5. Policy Performance:
 - a. How long has it been since policy performance has been reviewed
 - b. Have you ever compared it with original projections?

Next Step: Perform a Risk Analysis

1. Realistically evaluate potential liquidity needs if owners or key employee were to die
 - a. Implement insurance strategies to inject needed liquidity
 - b. Analyze concentration of assets for potential tainting of good assets by "bad assets"
 - c. Talk to your attorney about compartmentalizing the risks
2. Review asset ownership
 - a. Joint tenancy can defeat an estate plan
 - b. C Corp Trap
3. Tax implication analysis is upon a sale or transfer
 - a. Capital Gains
 - b. Estate Tax
4. Plan a diversification strategy
 - a. Create "Pockets of Wealth"