

## Institutional Life Insurance (ILI)

*An Executive Summary for Individuals, Professional Trustees and Advisors*

Medical advances have extended life expectancy the past ten years resulting in significantly lower term life insurance rates. This longevity enhancement and lower risk rates have also resulted in investment oriented institutionally priced life insurance (ILI) evolving into one of the most efficient cash management "structures" an individual or trust can own today.

Financial institutions have purchased ILI for years under ILI's bank-owned application – BOLI. CFO's of America's banks have transferred over \$126 billion of Tier 1 Capital to ILI (2009 Michael White Associates, LLC) because ILI expenses (mid to upper income white-collar employee risk rates) have less impact on investment gains than taxes ... cost-shifting from a 35% tax rate to the lower cost of ILI. The result is comparable or greater cash accumulation on the balance sheet *plus* supplemental life insurance death benefits at \$0 incremental cost.

Let's look at a personal diversification technique similar to the BOLI strategy.

Assume a male age 65 with \$250,000 of earned income, \$1 million invested in mutual funds and an 8% market rate-of-return before all fees, taxes or ILI expenses. Further, assume mutual fund expenses equal to the top 10% performing funds (Morningstar 9/30/2009) and the ILI products average separate account expense. The following chart compares maintaining a mutual fund portfolio to a diversified portfolio by transferring \$50,000 annually to ILI for ten years.

- Column A is the projected value of maintaining the mutual fund portfolio.
- Column E is the total cash assets after transferring \$50,000 annually to ILI for ten years.
- Column F is the total assets at death of the taxable fund and ILI death benefits.

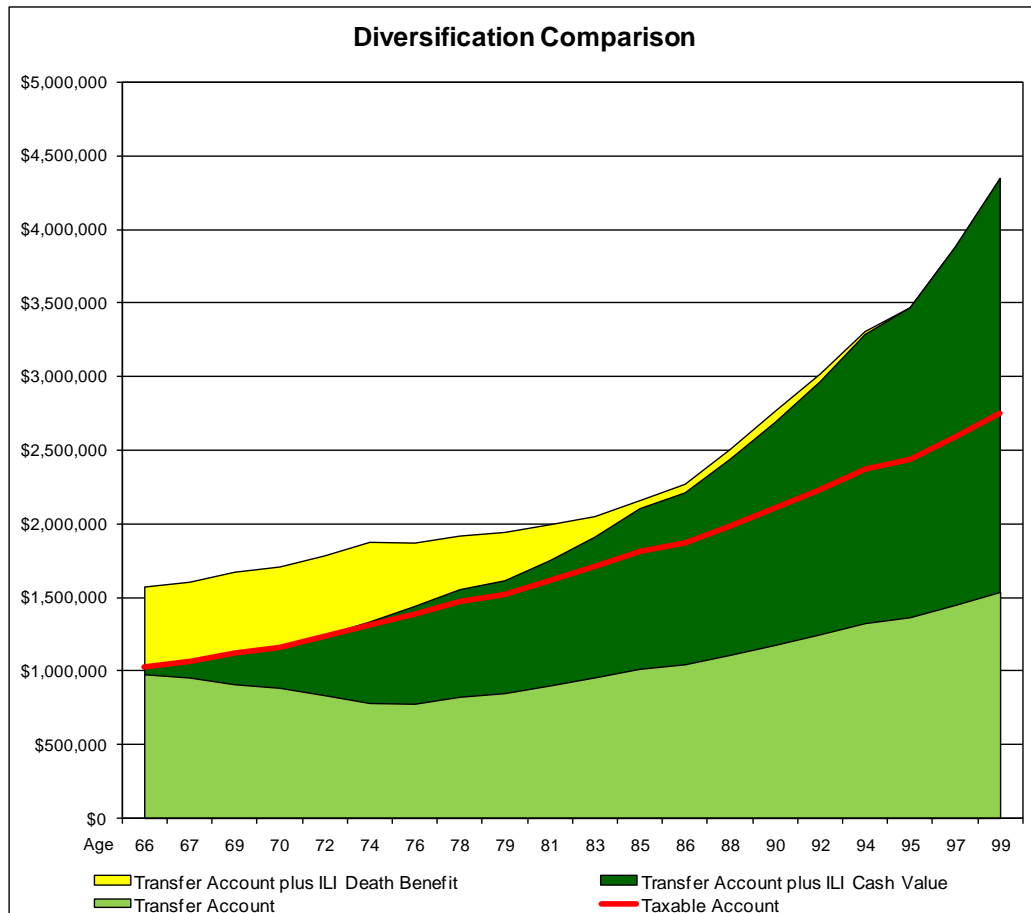
	Mutual Fund	Mutual Fund with ILI Diversification			Evaluation			
	A	B	C	D	E = B+C	F = B+D	E - A	F - A
	Taxable Mutual Fund Account	Net Mutual Fund Account	ILI Cash Surr Value	ILI Death Benefit	Total Cash Assets	Total Assets at Death	Cash Assets Gain	Death Benefit Gain
Year 1	\$1,030,193	\$978,619	\$52,367	\$593,681	\$1,030,986	\$1,572,300	\$793	\$542,107
Year 10	\$1,387,090	\$777,463	\$662,888	\$1,093,304	\$1,440,351	\$1,870,767	\$53,262	\$483,677
Age 80	\$1,562,353	\$875,697	\$804,678	\$1,093,304	\$1,680,376	\$1,969,002	\$118,023	\$406,649
Age 82 *	\$1,658,121	\$929,376	\$898,532	\$1,093,304	\$1,827,909	\$2,022,680	\$169,787	\$364,559
Age 95	\$2,440,947	\$1,368,149	\$2,101,933	\$2,101,933	\$3,470,081	\$3,470,081	\$1,029,134	\$1,029,134

\* Age 82 Life Expectancy.

The result is comparable or greater cash from inception plus an additional \$350,000 to \$1 million of death benefits at \$0 or minimal incremental cost.

The following graph visually demonstrates the advantage of diversification using the ILI structure. The ILI policy management objective is to minimize the life insurance protection (Yellow) in all years. The amount of protection reduces to \$0 at age 95. This also means the risk expenses have been managed to \$0 even though the policy proceeds continue to be paid income tax-free through age 125.

The financial efficiency of ILI increases with age. By age 95 the primary expenses are only the separate accounts (funds) which typically have a lower expense rates than their retail mutual fund counterparts.



ILI is a longevity-driven cash management life insurance policy consideration for individuals that qualify to access the ILI risk pool. Key implications of ILI include:

- ILI is an efficient cash management structure to supplement taxable or non-taxable structures.
- Employers can facilitate the purchase of ILI by qualifying employees with no cost, liability or administrative responsibility. The employer's role is solely the validation of employment and compensation.
- Trustees can diversify investment trust assets in accordance with investment policy statement criteria using ILI that includes a supplemental death benefit component at minimal incremental cost.
- In the 1970's the non-smoker risk class was created recognizing a life choice risk rating. Similarly, white-collar employees can now access ILI and its separately managed risk pool.

Contributed by Valley View Consultants, Inc.

Valley View Consultants, Inc. (founded in 2002) is a third party administrator (TPA) specializing in ILI policy management. The STAR Plan® is a Registered Trademark of Valley View Consultants, Inc. STAR is a voluntary employer-facilitated life insurance program available to white-collar employees qualified to own an investment oriented institutionally priced life insurance (ILI). For additional information please visit [www.ValleyViewConsultants.com](http://www.ValleyViewConsultants.com).

**Valley View Consultants, Inc.**

