



Capital for Life

A close-up photograph of several hands gently holding a baby's feet. The image is monochromatic, rendered in shades of blue. The hands are positioned around the feet, with fingers and thumbs visible, conveying a sense of care and protection.

Trustee Guide to International Life Insurance Solutions



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About Capital For Life

Introduction

With so many changes to trust law in recent years and increasing scrutiny from worldwide government tax authorities, life insurance is becoming an increasingly popular solution for trustees to use when dealing with a range of client issues.

Capital for Life has written this guide for trustees to help them make informed decisions about the use of international life insurance solutions to financially protect and provide for their clients and the legacies they manage and protect.

Independent Life Insurance Specialist

We are an independent and privately owned company meaning we can work without conflicts of interest and with the integrity needed to deliver to you and your clients.

Best in Class Solutions

Our products and solutions are sourced from the world's largest and most financially strong insurers. We have done the research and have in-depth knowledge of the products available to ensure your client has access to exactly the right solution for their needs.

Financial Advice

We can provide independent financial advice to trustees and clients using our life insurance and financing solutions.

Premium Finance

Unlike other life insurance brokers, we also provide premium financing for universal life insurance policies, giving you maximum planning flexibility and a one stop partner.

Service

We offer trustees and clients an end to end service. From initial client fact finding meetings and calls, to arranging medicals and paperwork, we work with you to provide the complete solution. We also provide ongoing reviews and support to trustees.

Global Cover

Capital for Life provides international life insurance solutions to high net worth clients of trust companies in over 200 countries across Asia, Europe, Middle East, Africa, Australasia, North and South America.

Consultancy and Training

We offer trustees in-house training on how and when to use life insurance policies.

Security

Any client data you share with us is encrypted and protected to world class standards.

Experience and Track Record

Our team has deep expertise and an enviable track record in providing bespoke international life insurance solutions to global high net worth clients. Our team also has expertise in premium financing and working with trustees to buy, finance and hold life policies.

Commission and Fee Sharing Arrangements

We recognise the importance of working together with our professional partners to provide high net worth clients with a complete solution. We offer generous commission and fee sharing arrangements to trust companies for the solutions we deliver to your clients.



How Trustees can use Life Insurance

Life insurance is a simple and effective solution that can be used to help high net worth clients and trustees with a range of issues.

Here are some ways in which an international life insurance policy can be used to solve a planning requirement.



01.

Family Security

A large cash lump sum payment would be made by the life insurance policy in the event of the life insured's death. This cash could be used to protect a family's lifestyle if the insured life was the main income earner. The life insurance policy would typically be held in an offshore trust. The cash pay out can be used by the trustees to assist the beneficiaries in line with the trust deed.

02.

Estate Tax Settlement

Insurance can be used by the trustees owning the policy to pay worldwide wealth taxes that become due upon the death of the life insured. Life insurance is a non-contentious estate planning solution and enables trustees to pay taxes that become due rather than seeking to avoid payment of the tax through structuring.

03.

Debt / Credit Protection

Credit and loan facilities may be recalled by banks or other finance parties upon the death of the insured life meaning the family could have to find a significant sum of cash quickly to pay off debts. A quick and timely pay out from a life insurance policy that avoids probate can prevent a fire sale of assets being made to repay debt secured against them, thereby leaving the assets intact to be enjoyed by the family. It also provides a flexible solution for trustees.

04.

Business Continuity / Key Man Protection

A life insurance policy pay out can provide the cash a business needs to safeguard it from a loss of revenue created by a key person. The cash pay out can be used to secure the services of a suitably qualified individual through a 'golden handshake' arrangement. It can also be used to provide the business with a pool of liquidity to continue trading and potentially pay off debts.

05.

Partnership Agreements

The cash from a life policy can be used to provide the funding needed to purchase a deceased partners shares in a business. The deceased partner's shares are transferred to the remaining business partners whilst providing immediate funds to the deceased's family, or beneficiaries, for the value of the shares that the partner held in the company. This protects the family and also safeguards the business partnership from the burden of having to find significant capital to buy the shares of the deceased partner from the family, thereby allowing it to continue.

06.

Beneficiary Equalisation

A transfer of assets like a home or business to an individual may

not create a fair or equitable solution for all the beneficiaries. A life insurance policy can provide the cash liquidity needed to allow a more flexible division of assets thereby allowing all beneficiaries to inherit equally.

07.

Asset and Currency Diversification

Life insurance policies are backed by very high financial strength life insurers and usually priced in US(\$) dollars meaning trustees are holding a hard currency asset as part of their portfolio. This can protect against weak and declining currencies, as well as countering the damage of local inflation on the value of an asset,

08.

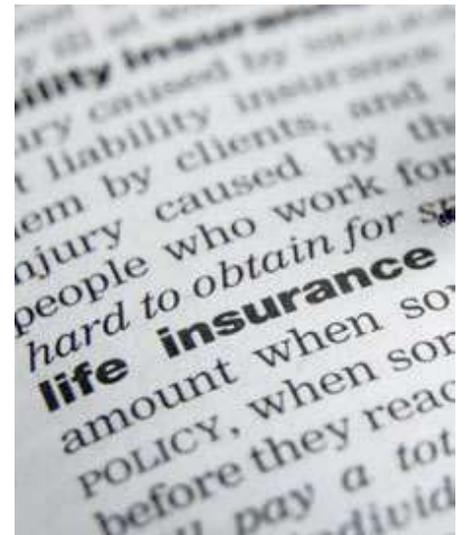
Sovereign and Political Risk Planning

A life policy held offshore in a suitable trust can help protect an individuals' assets from being confiscated and provide them with access to a separate pool if they need it.

09.

Philanthropy

Meeting a clients charitable giving goals can be achieved with the death benefit from a life policy. Trustees can use the cash value to support the named charities.



How to Calculate how much Life Insurance a Client Needs

Determining a client's financial goals like family security, business continuity or the settlement of estate taxes is the key to discussing how life insurance may play a role in helping the client achieve these goals.



The client and the trustee can complete a needs analysis to determine how much life insurance cover is needed to provide for their goals.

Several factors go into deciding an appropriate amount of life cover including what the policy is needed for, the cost of cover and the features and benefits the client and trustee need,

When deciding how much cover to buy, a simple formulae for how much capital you need is to use the mnemonic LIFE as a guide.

L = Liabilities

These include debts like mortgages, business loans and leveraged investment portfolios.

I = Income

This is the amount that the client's family needs to replace a lost salary from the life insured, as well as living expenses.

F = Final

Expenses to cover estate taxes and duty.

E = Education

The total cost to pay for the remainder of any children's education.

Using the LIFE framework is useful for calculating the remaining amount of cash needed for day to day living. However, it does not account for any legacy planning that a client may wish to undertake.

A professional life insurance broker will be able to help trustees work through the process of determining how much cover is needed, what the most appropriate type of policy is and help guide them to an appropriate conclusion.

There are two main types of life insurance policies that a client and their professional adviser need to choose from: **Term** and **Permanent**.

A life insurance broker can help provide guidance to trustees on the type of life policy that is suitable, but a trustee can make some quick decisions themselves based on the purpose of the life cover and the length of time the insurance cover is needed for.

With reference to the LIFE framework, providing cash to replace income and pay debts can be done with a time based policy like term insurance, whereas legacy goals like estate taxes that only take effect upon death, may lead a trustee to consider permanent life insurance.

Term Life Insurance

Term life insurance is a basic life insurance policy and is a very cost effective way of providing life cover for a fixed period of time, typically, 5 to 30 years. Benefits are only paid out if the individual life insured dies during the fixed period and with all premiums paid up to date. After the fixed period, the cover ends and a client will need to take a new policy if they wish to continue to maintain cover.

However, a client will be older and perhaps less healthy so expect a significant rise in the cost of premiums needed to pay for any new policy.

Decreasing Term Insurance

Decreasing term life insurance is another basic form of life insurance and like term insurance offers a relatively cheap and effective way of providing cover for a fixed period of time.

The main differences between term life insurance and decreasing term life insurance is that term cover offers the same level of cover throughout the life of the policy, whereas decreasing term cover will decrease the level of cover you receive throughout its term.

For example, these types of policy are used to cover gifts that may be a Potentially Exempt Transfer (PETs) under United Kingdom tax law. Gifts made under this rule are subject to a decreasing level of taxation over a time period of 7 years, therefore decreasing term insurance may be an appropriate type of policy for a trustee to cover this client need.

Permanent Life Insurance

Permanent life insurance offers life insurance cover for the whole of the insured's life, unlike term insurance which is for a specific period of time. The premiums of these policies are invested in an insurers funds and usually lead to a cash value being accumulated in the policy through the growth in that investment.

There may also be a cash surrender value that can be accessed if the policy value is sufficient, although caution needs to be taken because a withdrawal could effect the ability of the policy to pay out the full death benefit,

Different Types of Permanent Life Insurance Policies



Whole of Life insurance

Whole of life is a permanent insurance suitable for individuals who want guarantees in the life cover they are buying. This type of policy usually guarantees the minimum cash value of the policy, level premiums paid yearly and a guarantee that the death benefit, or sum assured will be paid out.

The guarantees built into a whole of life contract mean it is typically the most expensive type of policy to buy. The premiums are higher to reflect the fact that the insurance company issuing the policy to the individual is carrying the risk of an eventual pay out.

This type of policy is also typically the least flexible. For example, it would be highly unlikely for the insured to increase cover on the same terms as their original contract.

These policies are designed to endow, or reach the same cash surrender value as the policy death benefit at policy 'maturity' which is typically age 100.

Universal Life Insurance

Universal life insurance is also a type of permanent insurance, typically more suited to individuals who want more flexibility and need less guarantees. These policies are typically bought by high net worth (HNW) individuals who often want greater flexibility in the insurance part of their portfolio.

Policies are normally paid with a one time premium all up front, which also makes them more suitable for HNW clients. Clients can also select multi-pay which allows them to spread the premium over several years, typically 2 to 20 years, although the insurer will charge a higher overall premium if the client selects this option to compensate for not receiving all of the premium up front.

Unlike whole of life insurance, the cash surrender value and death benefits are not guaranteed in a universal life insurance contract. This means the premium is lower when compared to a whole of life insurance contract.

For example, increasing or decreasing the sum assured and making withdrawals with a subsequent adjustment in the life insured amount.

Premium financing is also usually available on universal life insurance contracts, typically allowing a client to borrow up to 90% of the cash surrender value at the start of the policy's life and re-finance the value if the cash surrender value rises, subject to finding a finance partner to provide a fresh loan. Financing the premium like this makes this type of policy very attractive because less capital is tied up funding the policy.

Many universal life insurance contracts also come with a guaranteed minimum interest rate on the contract. Typically, this is currently 2%, which adds a degree of certainty for investors. The effect of this guarantee can be seen in policy illustrations and is attractive to those clients investing in the indexed universal life insurance solution.

Different Types of Permanent Life Insurance Policies



Variable Universal Life insurance

Variable universal life insurance is a type of permanent life insurance policy that offers life insurance coupled with an investment account that allows the policy holder to invest in a wide variety of funds and securities. Part of the policy premium is invested into an investment portfolio belonging to the policy with the remaining premium being used to pay for the life cover. The cash value of the policy can increase and decrease in value through the performance of the portfolio's investment returns.

Indexed Universal Life insurance

Indexed universal life insurance is a type of permanent life insurance policy that offers life insurance coupled with a cash account that is linked to stock market returns. The policy premium is invested in an insurance company strategy that is designed to capture the upside potential of stock market investing. Policyholders who choose this option have their policies credited with the growth of a mix of indices selected by the insurance carrier. For example, the S&P 500 and the Hang Seng indices are popular choices for insurers to use. Unlike variable universal life policies, indexed universal life policies are designed to never fall in value simply due to stock market conditions.



How to Review an Existing Life Insurance Policy

When a trust owns a life insurance policy, the trust agreement with the client may require the trustee to review the policy and ensure it still provides the benefits originally intended to the trust beneficiaries. Reviewing a policy on an annual basis is best practice for trustees, unless a need arises before the formal review due to a change in client circumstances or an issue with the policy that prompts a more immediate need for review, for example an unexpectedly low policy valuation statement from the insurance carrier.

Here are some basic questions that may assist a trustee in reviewing their trust's life insurance policies:

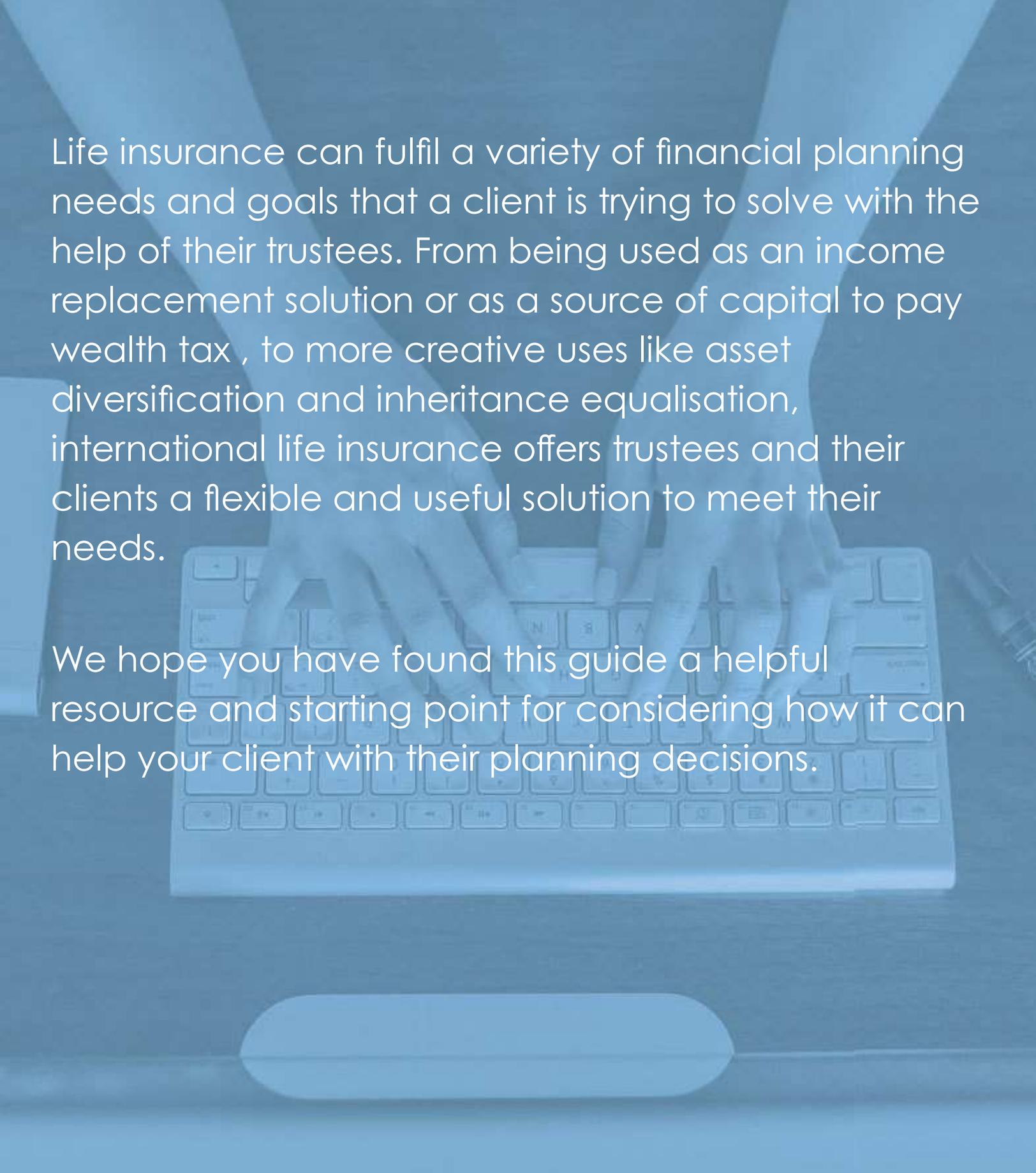
1. What is the state of the policy today? Is it still in force? Does it still provide the original benefits that it was designed to deliver?
2. How is the policy performing? Is it projected to continue to perform in the future?
3. Does it still meet the beneficiaries needs? Is more or less cover needed?
4. What other options are available today? Would these be better value?

In order for trustees to conduct a more thorough formal policy review, several pieces of policy information are required so that the policy can be thoroughly analysed.

Review Information

1. A copy of the original life insurance policy illustration.
2. Summary of the policy features and benefits including guarantees, riders, policy features and options.
3. Is the policy being multi-paid? If so, how many more payments are due and does the option still look good value and remain appropriate?
4. Does the policy have any premium financing attached to it? If so, what is the outstanding loan balance? What is the loan to value on the policy and what is in the interest rate of the loan? Is there a risk this may breach the lenders terms? What is the current interest rate being charged? Does this look good value?
5. A current valuation of the policy and revised current in force illustration with future projections
6. Information on the insurer's current financial strength rating and general market sentiment towards it. Ratings from Standard & Poor's, Moody's, Best or Fitch will usually be available for each insurance carrier

Given the importance of formal policy reviews, trustees can use our International Life Insurance Review Fact Find. Email us for a copy to assist with your reviews.



Life insurance can fulfil a variety of financial planning needs and goals that a client is trying to solve with the help of their trustees. From being used as an income replacement solution or as a source of capital to pay wealth tax, to more creative uses like asset diversification and inheritance equalisation, international life insurance offers trustees and their clients a flexible and useful solution to meet their needs.

We hope you have found this guide a helpful resource and starting point for considering how it can help your client with their planning decisions.

About Capital for Life

From our headquarters in Dubai in the Middle East, Capital For Life provides global reach of international life insurance services to trustees and their clients.

We understand the international trustee market and the importance of having good partners to work with in specialist areas such as international life insurance. We are a team of independent professionals who provide international life insurance policies to high net worth clients worldwide. Collectively, we have over 150 years of experience that stretches from life insurance to banking to working with wealth managers, private bankers and trust companies.

If you have any questions, or would like to learn more about how you can work with one of the world's leading independent life insurance and premium finance providers, please get in touch.

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