

Insuring Success



High-net-worth clients have distinct insurance needs to help them grow and protect their wealth.

BY STEPHEN CROWE

For investors of all sizes, insurance plays a key role in protecting assets. However, high-net-worth investors often have unique insurance needs. In addition to insuring high-value homes, vehicles and collections, wealthy individuals and families may need umbrella policies to protect their total net worth. Life insurance policies can also play a highly specialized role in the estate plans of affluent investors, going well beyond the more conventional uses. Leading wealth managers say that while insurance is only a small piece of the wealth planning process, it can play a crucial role in helping high-net-worth investors achieve a broad range of financial objectives.

A Team Approach

Many wealth advisors today work with insurance specialists to help craft the right solutions for clients. “At Lexco Wealth Management, our wealth advisors are facilitators, which means that we’re at the center of a broader relationship team,” says Christopher Jordan, president and chief executive officer of Lexco. Jordan routinely brings in specialists to help him address specific client needs, such as insurance, offshore trusts or legal concerns. “High-net-worth clients need a central point of access to help bring these complex planning issues together,” he says. “Our role is to help facilitate the decision-making process within the context of a comprehensive wealth management plan.”

Dave Adams, an estate and business planning consultant and senior account executive for Hartford Life, believes that a team-based approach allows wealth advisors to remain focused on their primary skill set. “I work with a number of advisors who specialize in serving high-net-worth clients, including registered investment advisors, financial planners, stock brokers and people in the banking industry,” he says. “What these advisors have in common is that they don’t spend the majority of their time or make the bulk of their income from selling insurance.” When working with an advisor, Adams serves as a consultant within the advisor’s extended wealth management team. “My job is to help foster a dialogue among advisors and

their clients about specific insurance needs, while respecting the role of the advisor.”

Umbrella Liability Insurance

“For high-net-worth individuals, one of the holes we commonly find in financial plans is a lack of umbrella coverage for liability,” says Jim Brumbelow, head of national insurance sales for Citi Global Wealth Management. “People with substantial assets are often targets of litigation yet frequently don’t have adequate liability coverage.” Brumbelow recommends assessing clients’ insurance needs at least once a year as part of an annual account review to ensure that they have adequate coverage for all of their risk exposures.

Determining how much liability insurance a client needs can be a challenge, as there aren’t any universally accepted standards within the industry for how much liability coverage may be enough. “There’s often a fundamental flaw in the way many financial planners approach liability insurance,” says Jim Fiske, vice president and national marketing manager for Chubb Personal Insurance. “Many financial planners tend to focus almost exclusively on a client’s net worth. Net worth is an important consideration, but it’s only a starting point.”

Fiske recommends evaluating a client’s total assets and future earning power, as well as personal risk factors. For example, he notes that parents with teenage drivers or people who frequently entertain guests in their homes may be at increased risk for personal liability. Fiske also recommends evaluating the type of liability coverage that may be most useful in supplementing a client’s existing property and casualty policies with the help of an insurance agent or broker with experience in the high-end market.

Life Insurance

A key function of life insurance for wealthy clients is to mitigate the impact of estate taxes. “The IRS is an important factor in the equation for high-net-worth investors,” says Scott Pulsifer, a wealth advisor for CoreStates Capital Advisors.

“When you start planning for estate taxes, life insurance suddenly becomes more applicable to the high net worth.” While the estate tax may be subject to future legislative changes, many industry professionals say that they don’t expect to see the estate tax abolished anytime soon. As a result, wealth managers continue to help clients plan for estate tax liabilities, often using life insurance as a strategic component of their clients’ estate plans.

Pulsifer encourages clients to consider the tax treatment of the vehicles in which they hold their assets. For example, investors may have regular taxable accounts, tax-advantaged retirement accounts and life insurance policies, which Pulsifer describes as representing a “third bucket” of tax treatment. He notes that life insurance benefits are typically free of income tax

Avoiding Mistakes

It’s essential that wealthy individuals consider how an insurance policy fits into their broader financial plan before buying it, to avoid making costly mistakes. Common errors include looking for the lowest price rather than the most appropriate policy, buying policies that don’t include enough flexibility and including annuities or life insurance policies in taxable estates.

“Insurance is often viewed as a commodity,” says Fiske. “But frequently mass-market solutions aren’t appropriate for high-net-worth investors.” Fiske believes that wealth managers should seek out insurers with the coverage, services and scale to meet the needs of affluent clients. “You want to get a sense of how a policy will be serviced over the long term, as well as how a company deals with some of the more unusual

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to the beneficiary and may also be free from estate taxes when the policy is held in an account outside of the deceased’s estate, such as in a trust or family limited partnership. Furthermore, if properly funded, clients may access cash for liquidity needs without immediate taxation by borrowing from the policy.

Life insurance policies are also used by affluent individuals to transfer wealth to charities. Adams has noticed an increased trend toward naming charities as the beneficiaries of life insurance policies. “In my experience, investors who have \$10 million or more in assets are frequently thinking about causes they want to support, in addition to taking care of their families,” he says. Adams notes that some wealthy individuals use life insurance to provide a favorite charity with an endowment, while others may use it to help create a private foundation. “High-net-worth investors often want to take a small gift and turn it into a larger gift through the leverage of life insurance,” he adds.

Premium Financing

Investors with substantial but illiquid assets may have the opportunity to finance the cost of their life insurance premium. “The benefit of premium financing to wealthy clients is that there’s no out-of-pocket outlay for the cash premium required by the policy,” says Bill Spiropoulos, president and CEO of CoreStates Capital Advisors. “This approach may appeal to business owners with a material interest in a public or private company,” he says. Spiropoulos adds that premium financing can offer a practical solution for funding buy/sell agreements among partners in a joint business venture. “With premium financing, a client is effectively creating a loan in which interest accrues over time,” he notes. “The loan will ultimately be repaid out of the death benefit, with the remainder of the payout going to the beneficiary.”

circumstances that may arise when working with high-net-worth clients,” he says.

Industry professionals agree that taking a holistic view of wealthy clients’ needs can result in creating more effective insurance solutions. “Insurance plays a critical role in the financial planning process for wealthy individuals,” says Michael Ban, head of insurance and annuities for UBS. “A sound financial plan doesn’t just consider what’s going on now; it also considers clients’ ultimate goals, including those for their family and their charitable interests.” In today’s market environment, Ban believes that many wealth managers are going back to the basics. “Advisors are employing insurance strategies that are ‘tried and true’—classic financial planning techniques that have stood the test of time,” he notes. ■

Insurance for Domestic Staff

While butlers and maids may be a thing of the past, many wealthy families still employ a broad range of personal employees, including nannies, housekeepers, cooks, gardeners and drivers. “Families with domestic employees may want to consider buying workers’ compensation coverage to protect themselves should an employee get injured on the job,” says Jim Fiske, vice president and national marketing manager for Chubb Personal Insurance. “It can also be a good idea to have employment practices liability coverage, in case a former employee sues for wrongful termination, harassment or discrimination.” As insurance regulations can vary widely by state, Fiske recommends that advisors consult with an insurance agent or broker.