THE WALL STREET JOURNAL.
WEDNESDAY, OCTOBER 30, 2013 © 2013 Dow Jones & Company, Inc. All Rights Reserved.

Wealth Adviser

A Plan To Increase the Kids' Inheritance

(The following has been excerpted.)

BY AUSTIN KILHAM

The clients, a couple in their mid-70s, had $1 million of inherited money housed in a trust and invested in the stock market.

They didn't need the funds for themselves. Instead, they wanted to grow their investment and pass it on to their middle-aged daughters.

The clients approached adviser, David Kanani of the Kanani Advisory Group, which manages $75 million for 350 clients, for guidance on how to do that.

"The clients felt that they were stewards of the money, which had come from the wife's father," says Mr. Kanani, who's based in Irvine, Calif. "They wanted to find a way to protect the money while increasing the amount in the account."

The couple also was uncomfortable with the risks of the stock market, and hoped to position the funds more conservatively. The adviser presented the clients with a three-part solution that he believed met all their needs.

First, Mr. Kanani suggested that the clients use the $1 million to purchase two $500,000 tax-deferred fixed index annuities, which would provide a relatively safe way to invest their money.

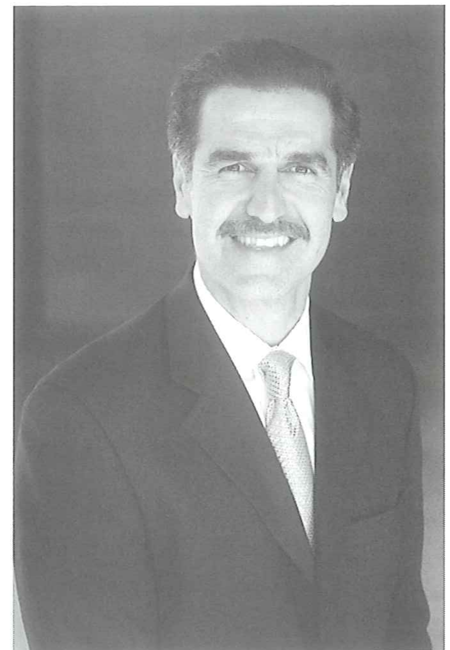
He notes that currently this type of annuity offers payments closer to 3% or 4%. The annuities also allowed the couple access to up to 10% of the total value of the annuity penalty free after the first year.

The adviser suggested that the couple put that latter benefit to work to double their daughters' inheritance. He advised his clients to use those penalty-free available funds to pay for a $1 million survivorship life insurance policy, which had a $25,000 annual premium.

The daughters would be the beneficiaries of the insurance policy. "Survivorship life insurance makes payments to beneficiaries only after the second spouse has passed away, making the cost of insurance a lot more reasonable than single life insurance," says Mr. Kanani.

He notes that although the annuities worked well for this couple, they do have drawbacks, including relatively high fees. In this case one annuity was set aside for growth and had no fees, but the other had an annual fee of 65 basis points, which was taken out of the annuity's growth account.

As a final step, the adviser set up a separate irrevocable life insurance trust, with the daughters named as beneficiaries, to hold the survivorship policy. By putting the insurance policy in this trust, it is no longer considered part of the couple's taxable estate and will pass to the daughters tax-free, says Mr. Kanani.


David Kanani

With these three pieces in place the couple effectively doubled the amount they are able to leave their daughters, says Mr. Kanani, even if they pass away sooner than expected.

The adviser says that this technique is a great way for clients to leverage an existing account to increase the value of an estate without adding a considerable amount of risk.

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