Meet a Davidson Companies Professional

- Joined Davidson Companies in August 2000 as Vice President, Davidson Insurance Agency (A division of D.A. Davidson & Co.) and works from the Billings branch office location.
- For nine years prior to joining Davidson Companies, Jeff was the owner and president of his own insurance agency, The Taylor Group, in Billings, Montana.
- In addition to serving on the Yellowstone Estate Planning Council, Jeff played a significant role and was the contributing expert (working with the National Network of Estate Plan Attorneys) for the book "Wealth Management and Preservation". Jeff is also a member of NAIFA (and is a local Past President of that association) as well as numerous other business-related associations. He and his wife, Pam, have 2 children.

Jeffrey Taylor
Vice President,
Davidson
Insurance Agency

Davidson Insurance Agency is fairly new to the Davidson Companies. Can you explain what your services bring to our clients?

As part of the Davidson team, our role is to provide expertise and education to the client in the area of long-term care and life insurance as a strategic part of any estate or wealth preservation plan. By choosing the Davidson team for financial advice we strive to simplify our client's life, as well, by being able to offer these product lines.

What has been your biggest challenge thus far in introducing these services?

Stockbrokerage is a transactional business, offering insurance based products in that arena used to be viewed as oil and water. The new age in financial planning requires that we broaden our mindset to realize how important and fundamental insurance is to complete that process. It's all about helping clients protect and build assets. Once realized, and many have, it becomes part of our daily regimen to extend insurance services to our clients.

What are some of the most exciting opportunities you have seen for our clients to properly use insurance products?

There have been many exciting opportunities for the value added by insurance products. The first example that comes to mind, a financial consultant in Bozeman was performing a portfolio review for his clients and noticed, as part of their planning, they had an Irrevocable Life Insurance Trust. He asked if they would mind an independent review of the policy funded by the trust. After review, it became clear that the policy design was going to pose problems later. We were able to "fix" the problem and help the client. Another case involved a policy review that turned up a problem with owner and beneficiary designations that would have caused the life insurance proceeds to create income taxable to the heirs.

Long-term care for the elderly is an increasing concern for many. Can insurance help solve the problem?

Great question, as our society ages, 50% of people over age 65 will require some sort of care from an outside provider. This care is expensive and paying for it can deplete an estate in a short period of time. Long-Term Care insurance provides protection against such an expense for pennies on the dollar. Everyone is worried that they will outlive their money. Using Long-Term Care insurance to offset the cost associated with nursing care, we can help our clients avoid that tragedy. Again, it's all about wealth preservation and that's exactly what LTC insurance provides.

You left your own very successful insurance practice to join the Davidson Companies. Why did you make this leap?

A new challenge and the ability to help more people. One of the nice surprises is the atmosphere and attitude at D.A. Davidson. The close-knit, family approach to business is refreshing.

Enough of the professional side. What does Jeff Taylor do outside the office?

I enjoy family time, travel, archery hunting, golf, bicycling, attending Denver Bronco Games, and weight training.

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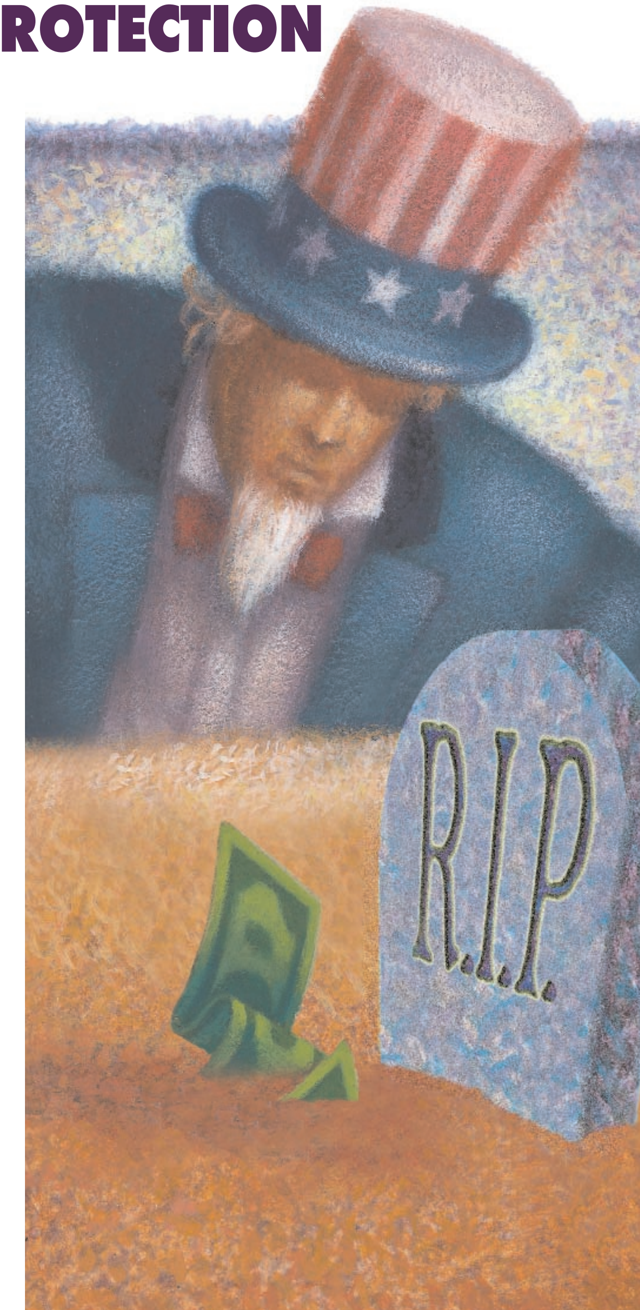
WEALTH PLANNING AND PROTECTION

Death and taxes, the only two givens in our daily journey through life. Neither item is greeted with glee, and rationally, we can only hope to minimize the negative impacts of either. The way to diminish the often-correlated effects of death and taxation is proper planning to ensure liquidity when needed. Oftentimes life insurance is the best vehicle to lessen the impact of these dreaded occurrences.

Why life insurance? Insurance generally is purchased as a risk management tool. We insure our property for protection from damage or destruction to eliminate the consequences of a catastrophic occurrence. Medical insurance is also designed to eliminate the financial damage of extended illness or injury. Life insurance offers financial resources to provide liquid funds to mitigate the impact of death, whether untimely or anticipated. Essentially, life insurance is a prefunding tool that transfers early mortality risk to the insurer. Additionally, life insurance may have some tax advantages and can provide the liquidity necessary to pay estate or income taxes.

General purposes of life insurance. Life insurance is a unique product. It can be used to help solve some of life's perplexing problems. Some of the most common uses of life insurance follow:

- **Create an estate** — where time or other circumstances have kept the deceased from accumulating sufficient assets to care for their family, insurance can create an immediate benefit. This is the ultimate risk management tool to offset the financial risk of an untimely death. Most typically, "term" insurance provides the least expensive protection but other forms of insurance can be advantageous in some instances.



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WEALTH PLANNING AND PROTECTION

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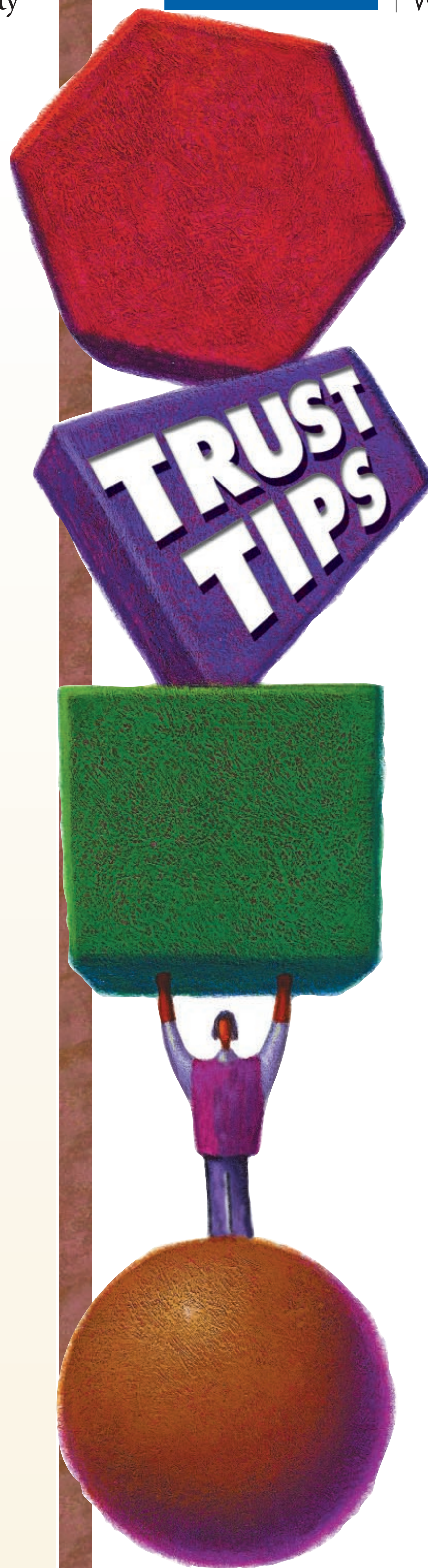
- **Pay estate taxes or costs —** estate tax, inheritance taxes, probate costs and other settlement costs can deplete a large estate by over 50%. These costs demand liquidity to preclude "fire sale" disposal of assets not meant to be sold. Life insurance can provide this liquidity, with "second to die" policies often the method of choice.
- **Fund a business transfer —** business owners often agree to buy a deceased owner's share from his/her estate. Life insurance can provide the ready cash to finance the transaction.
- **Charitable gifting —** while life insurance seldom is used in the gift itself, the purchase of life insurance can be intelligently used to replace the value of the gift from the donor's estate back to his/her heirs, outside the estate. This planning technique is a wonderful opportunity for higher net worth families to fulfill charitable intent and also enables them to pass meaningful amounts to their heirs. It can unlock an income stream from assets which pay little or no income. Insurance trusts are often used in this arrangement.
- **Equalizing inheritance —** many families with privately owned businesses, farms or ranches face a situation where one child may be engaged in the business while other children are not. Life insurance can be used to "equalize" the inheritance leaving the enterprise to one child and the proceeds of insurance to the others. This again is often done with the use of insurance trusts to minimize estate tax ramifications.
- **Pension maximization –** Defined benefit pension plans often allow a choice of monthly income payments based on either the life of the retiree or a reduced payment for the retiree's lifetime and that of the spouse. In many cases, the extra income from the higher retiree's single life expectancy can be used to fund insurance to provide for the surviving spouse and leave the couple more disposable income as well.

Individual and family circumstances demand that the use of life insurance be properly designed. It should be used as a tool to help achieve the ultimate goals of the investor and be part of the overall financial picture. Thus, life insurance should not exist on an island but be reflective of goals, existing investments and the very unique family circumstance of the investor. Periodically, existing policies should be reviewed to ensure that these policies continue to economically meet all the needs of the investor.

Your financial consultant can be of great value in guiding you to proper insurance planning. Through the expertise of the Davidson Insurance Agency and its professionals, your current insurance can be reviewed and solutions to the problems of death and taxes can be created. Talk with your D.A. Davidson & Co. financial consultant, your trusted advisor, who can help you in this important review of your financial life.



DAVIDSON COMPANIES

Davidson Trust Co.

WEALTH MANAGEMENT

Life insurance is an asset like any other asset—if the insured owns or "controls" the policy as of the date of death, the full amount of the policy proceeds will be includible in the insured's estate for estate tax purposes. This result can be avoided, however, by having someone other than the insured own the insurance. This is often accomplished through the use of an Irrevocable Life Insurance Trust (ILIT).

What is an Irrevocable Life Insurance Trust? To avoid inclusion of the proceeds of an insurance policy in the estate of the insured, all "incidents of ownership" in the policy must be possessed by someone other than the insured. An incident of ownership includes not only the right to receive the insurance proceeds, but also the right to designate the beneficiary, borrow from the cash value and almost any other right to affect the benefits flowing from the policy. Insurance can be transferred to one's spouse; however, this does little to save estate taxes, because unless the spouse spends the insurance proceeds, the unspent portion will be included in the spouse's estate. And in those situations where the insurance involved is survivorship insurance (also known as second to die insurance), having the insurance owned by either of the spouses will result in estate tax inclusion upon the death of the surviving spouse.

Use of an ILIT is a powerful estate-planning tool. The ownership of insurance policies also can be given to the insured's children to avoid estate tax inclusion in the insured's estate. The problems with this solution, however, are two-fold. First, where the insurance is on the life of the wage-earner, it is often the family's desire that the surviving spouse have access to the insurance proceeds or the income generated by the proceeds. Second, even where survivorship insurance is involved, the insureds often do not want the children to be in the position to spend the proceeds immediately upon the death of the insureds. The solution to both of these common scenarios is the ILIT.

An ILIT is created by the insured(s). This trust becomes the owner of the insurance and is irrevocable. As such, the trust cannot be changed by the insured and, if properly structured, the proceeds of insurance will not be included in the estate of the insured(s).

Where the insurance is on the life of the wage-earner, the surviving spouse can be the trustee of the ILIT and, generally, can be entitled to all the income of the trust and principal, if needed for reasonable living needs, as determined by the surviving spouse. Notwithstanding all these rights, upon the death of the surviving spouse, the assets of the trust are not subject to estate tax in that spouse's estate. And upon the spouse's death, the assets of the trust can then be held for the benefit of the children (or other heirs) or distributed outright to them without imposition of estate tax.

How does an ILIT mechanically operate year after year? After the ILIT is formed, it is responsible for the annual premium payments on the insurance it owns. Generally, the funds are provided by the insured. While the provision of these premium dollars is a gift, the trust often can be structured so that the gift qualifies for the insured's annual gift exclusion. In other words, the trust can generally be structured so that annual premium payments can be equal to $11,000 multiplied by the number of beneficiaries of the trust (even contingent beneficiaries) before there would be liability for gift tax.

Estate tax savings of transferring insurance ownership. The estate tax savings resulting from parting with the ownership of an insurance policy can be significant. For instance, if the insured owns an insurance policy with a face amount of $1,000,000 upon the insured's death (or, in many instances, upon the later death of a spouse), the estate may be depleted by federal estate taxes ranging from 37% to 50% of the amount of the insurance proceeds. The beneficiaries named in the policy would then only receive the balance. However, if a properly structured ILIT were to own the same policy, no estate tax would be due, saving the beneficiaries from $370,000 to $500,000 of estate tax on the $1,000,000 policy proceeds.

This information should be used as a general guide-line concerning Retirement Planning Strategies. We recommend you consult your own tax advisor or attorney before planning any investment strategy.