



COVERING ALL THE BASES

The following sales idea is from Richard E. Baer, CFP, J.D., of Los Altos, California, who has 10 Top of the Table and 14 qualifications and has been an MDRT member since 1978.

Recently, a long-term client referred her sister-in-law, Bonnie, to me for investment planning following the death of her husband, Bob.

At the time of the initial interview, the only thing Bonnie and her adult children were interested in was improving the rate of return of the family company retirement plan.

During the first interview, however, it became clear that they needed help with many other issues besides investments.

As it turned out, the family's attorney and CPA were long standing advisors to the family and were not particularly cooperative with us during the planning process.

My client gave me such a strong reference, however, that Bonnie and the family listened to what I said and, ultimately, took my advice.

As the relationship progressed, it became clear that there were some pretty obvious deficiencies in the existing planning. For an example, the CPA failed to file an election to step up the basis of the family partnership units (FLP) that were still in Bob's estate.

The FLP generated \$200,000 of yearly income, all of which was going to Bonnie, who is in a high-income tax bracket.

She then gifted most of the net proceeds to her grandchildren for education expenses.

By the CPA filing this election, the income taxes on the \$200,000 of income were virtually wiped out, and therefore giving the family a \$70,000 increase in annual net income. (As it would turn out, this more than paid the life insurance premiums on Bonnie.)

During the next six months, we were able to give them advice regarding the following: the funding of Bob's (Bonnie's deceased husband) bypass trust; using Bonnie's unified credit to transfer a 45 percent interest in the family investment partnership; invest the proceeds of the sale of the family residence (\$1.8 million) and write about \$2 million of

universal life insurance in the profit-sharing plan, which will later be purchased by the bypass trust to remove it from Bonnie's estate.

By making sure that we covered all of the estate, income tax, investment and cash flow issues, we now have about \$1.3 million of investment capital, a \$2 million life insurance policy on Bonnie and a very happy family.

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