

*A Framework for Approaching  
Life Insurance  
In the High Net Worth Context*

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**SAN ANTONIO ESTATE PLANNERS COUNCIL**  
*February 16, 2016*

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A Private Placement Variable Universal Life contract is an unregistered securities product and is not subject to the same regulatory requirements as registered variable life insurance products. As such, Private Placement Variable Universal Life should be presented only to accredited investors or qualified purchasers as described by the Securities Act of 1933.

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Investors should consider the investment objectives, risks, charges, and expenses of any variable product carefully before investing. Such information, and other important information concerning the investment company, is contained in each fund's offering memorandum, which can be obtained by calling (205) 263-2400.

# Presenter Biographies

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**Edmund P. Perry, J.D.** As Senior Counsel of Capital Strategies Group, Edmund specializes in estate planning and wealth transfer. Prior to joining Capital Strategies Group, he enjoyed thirteen years in senior legal and management positions at two NYSE-traded companies and nine years leading a privately-held risk management and employee benefits brokerage and consulting firm. He began his legal career at the law firm of Burr & Forman LLP and continued as a senior legal officer of SONAT Inc. (formerly NYSE:SNT, now Kinder Morgan Inc., NYSE:KMI), and in executive management positions at Protective Life Corporation (NYSE:PL) and Molton, Allen & Williams LLC, most recently serving as President of MAW. Edmund finished first in his class and was Valedictorian at Washington & Lee University (B.A. 1982). He is a graduate of the Yale Law School (J.D. 1985) and a member of the Alabama and American Bar Associations. He currently holds his life license, Series 6 and Series 63.

Edmund serves on the boards of Cornerstone Schools of Alabama, The Foundry Ministries, and Lone Sheep Ministries.



**Preston M. Sartelle, CFA** As Director, Business Development, for Capital Strategies Group, Preston specializes in both estate planning and institutional insurance transactions. He joined Capital Strategies Group in 2005, bringing with him six years of bank consulting and accounting experience. Prior to his current position, Preston spent three years with Taylor & Company, a management consulting and executive search firm specializing in financial services. Preston also worked for the accounting and project administration groups for Asea, Brown, Boveri (ABB), an international power systems firm, in Madrid, Spain. A graduate of Washington & Lee University, Preston obtained a degree in Accounting. He currently holds his life insurance, Series 7, and Series 66 licenses and is a C.F.A. charter-holder.

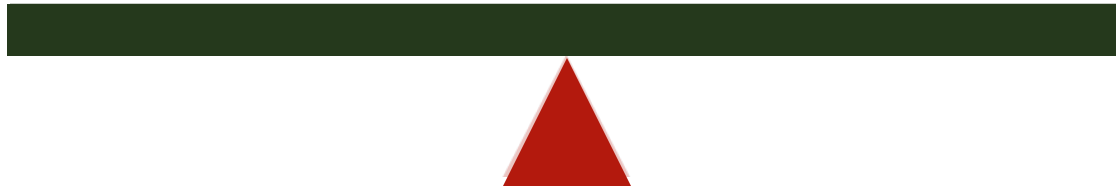
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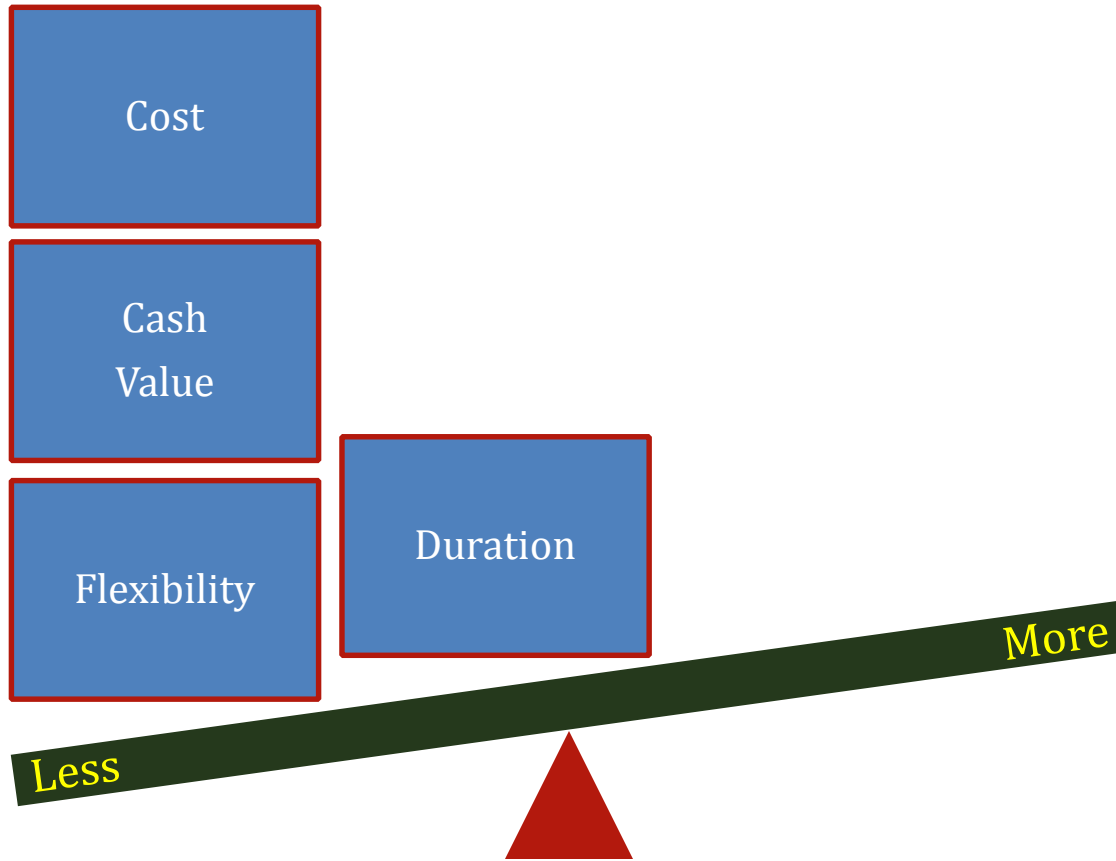
- Balancing Act
- Annual Performance Review
- Case Studies
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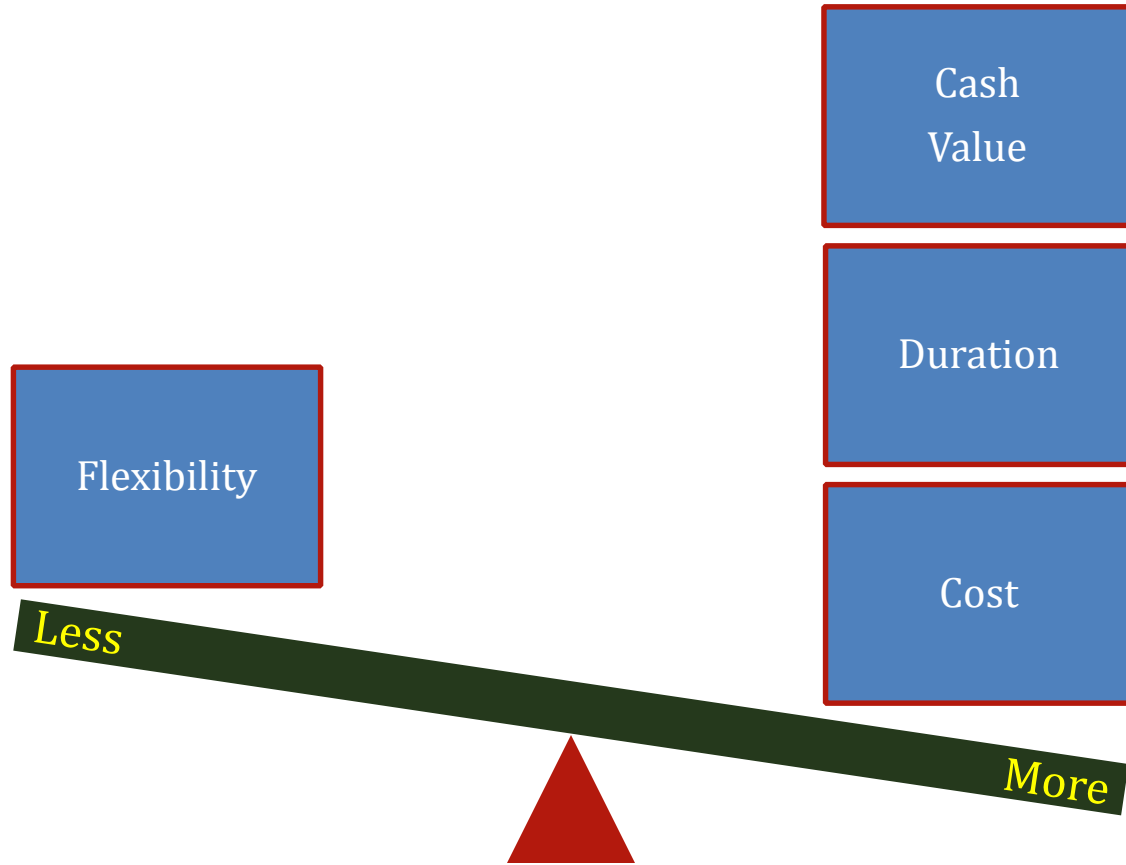
# Balancing Act



# Term

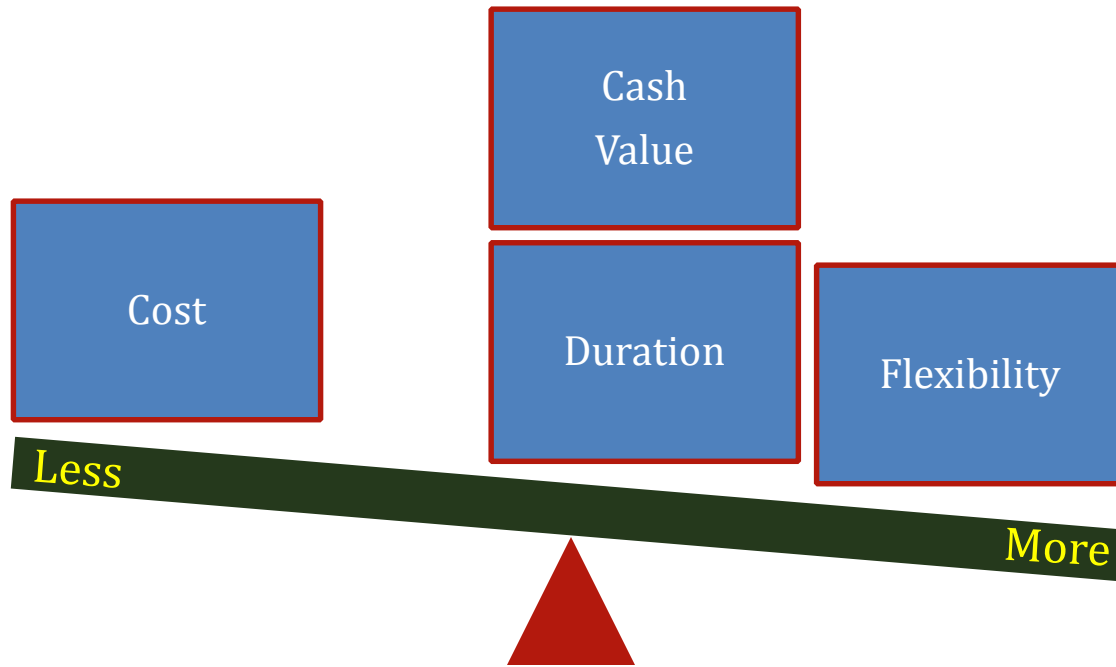


# Whole Life



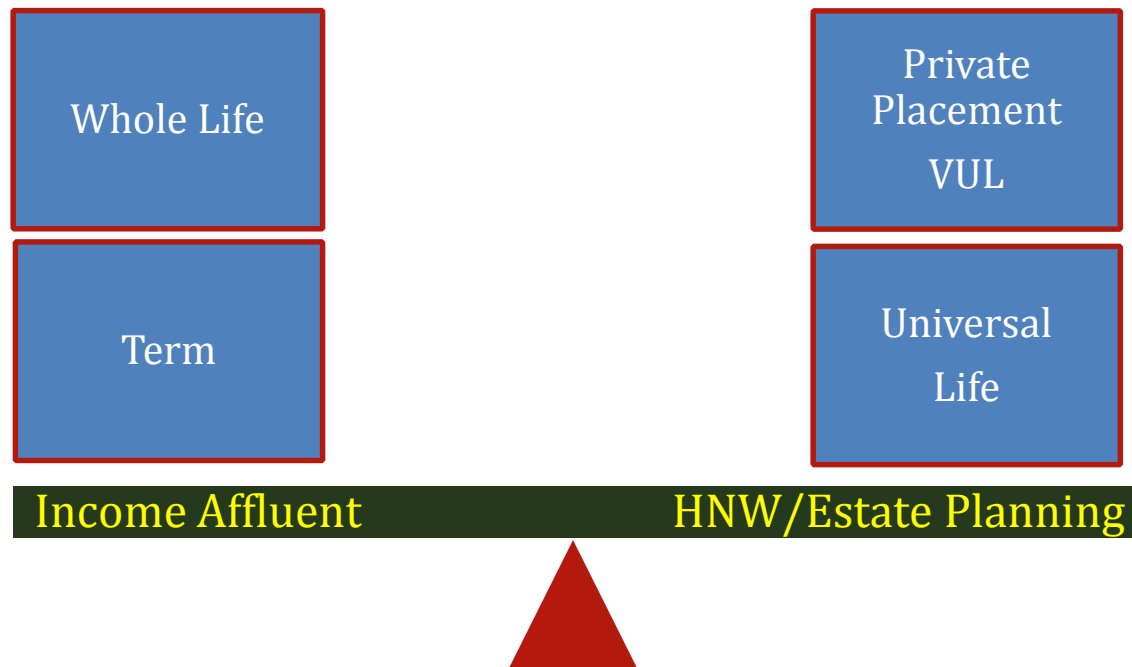


# Universal Life



# Practical Application

*Form Follows Function*



# Balancing Act

## Product Spectrum

	<b>Guaranteed Level Premium Term</b>	<b>Whole Life (WL)</b>	<b>Current Assumption Universal Life (CA UL)</b>	<b>Guaranteed Universal Life (GUL)</b>	<b>Variable Universal Life (VUL)</b>	<b>Indexed Universal Life (IUL)</b>
<i>Cost</i>	Low Coverage not available through life expectancy. IRR is typically 0.0%.	High Death Benefit IRR lower at life expectancy	Moderate Death Benefit IRR higher at life expectancy	Moderate Death Benefit IRR higher at life expectancy	Moderate Death Benefit IRR higher at life expectancy	Moderate IRR higher at life expectancy
<i>Duration</i>	Coverage for specified term of years. May convert to permanent coverage, but conversion can be expensive, especially with carriers that limit conversion choices.	"Base" coverage is generally for life (Age 100 or 120), but "Supplemental" coverage and "Paid Up Additions" vary. "Paid Up Additions" are non-guaranteed and based on declaration of policy dividend and dividend scale.	Desired duration is determined at inception based on non-guaranteed, current interest crediting rate. Rates declared from time-to-time by carrier determine actual duration. Duration is extended by rising rates, shortened by falling rates. Contract has no rate cap. Contract has guaranteed rate floor.	Desired duration is determined at inception based on guaranteed crediting rate. Rising and falling rates do not affect duration. If policy terms & conditions are met, the contract will not lapse prior to scheduled duration.	Desired duration is determined at inception based on Owner's selection of variable investment account and fixed account options. Performance over time determines actual duration. Duration is extended by better performance and shortened by worse. Variable investment accounts have no return cap or floor. Fixed accounts have no rate cap but have guaranteed rate floor.	Desired duration is determined at inception based on Owner's selection of one or more published indexes, such as the S&P 500, and fixed account options. Performance over time determines actual duration. Duration is extended by better performance and shortened by worse. Indexed accounts have rate cap and floor. Fixed accounts have no rate cap but have guaranteed rate floor.
<i>Cash Value</i>	No cash value accumulation.	Higher cash value accumulation, based on declared dividend rate. Cash value provides needed flexibility for changing circumstances.	Moderate cash value accumulation, based on declared crediting rate. Cash value provides needed flexibility for changing circumstances.	Very little cash value accumulation, so essentially no flexibility.	Moderate cash value accumulation, based on (i) return on investment in variable investment accounts and/or (ii) declared crediting rates of fixed accounts. Cash value provides needed flexibility for changing circumstances. Policy cash values invested in variable investment accounts are subject to risk of loss.	Moderate cash value accumulation, based on (i) crediting rates determined on the basis of changes in the referenced indexed accounts and/or (ii) declared crediting rates of fixed accounts. Cash value provides needed flexibility for changing circumstances.
<i>Flexibility</i>	None Must pay specified premium on time or policy will lapse.	Low Premiums not flexible. Duration and death benefit cannot be adjusted easily.	High More or less premiums can be paid in depending on changes in interest rates and planning needs. Monitoring the contract can lead to higher return on invested premiums.	Low Amount and timing of premium payment are rigidly set, regardless of circumstances.	High More or less premiums can be paid in depending on performance and planning needs. Monitoring the contract can lead to higher return on invested premiums.	High More or less premiums can be paid in depending on performance and planning needs. Monitoring the contract can lead to higher return on invested premiums.

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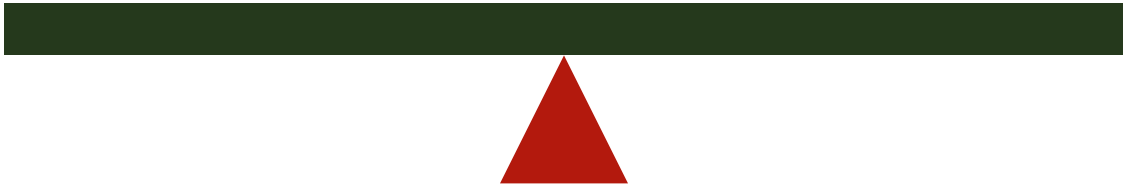
CAPITAL STRATEGIES

# Balancing Act

## *Product Spectrum: Private Placement Variable Universal Life*

<i>Cost</i>	<p>Low Net Cost but High Entry Cost</p> <p>Death Benefit IRR at life is design dependent</p>
<i>Duration</i>	<p>Owner determines duration based on selection or creation of Insurance Dedicated Fund and funding</p>
<i>Cash Value</i>	<p>Income-tax sheltered high cash growth platform with ability to select managers</p>
<i>Flexibility</i>	<p>High</p> <p>Premium lump-sum funded, either at inception or over a 3 - 5 year period. Owner selects managers but cannot select investment assets or steer investment strategy.</p>

# Annual Performance Review



# Annual Performance Review

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## *Manage for Assurance*

### ▪ *Annual Strategic Questions:*

- *Any change in insurability (Term conversion deadline)?*
- *Have any critical assumptions changed?*
- *Has the tax environment changed?*
- *Are the target duration and selected amount still appropriate?*

### ▪ *Annual Performance Questions:*

- *Has carrier strength or claims paying ability changed?*
- *Has rate / return on cash value been acceptable?*
- *Is current illustrated policy duration acceptable?*
- *Have policy charges or expenses changed?*
- *Is there a good system in place to assure regular review?*

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**POLICY REVIEW**

**John Q. and Nancy S. Client**

**Annual Life Insurance Policy Review**

Prepared by Capital Strategies Group on 05/08/2012

**At Your Service:**

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- Conveniently outline the policies that Capital Strategies Group has assisted in acquiring on your behalf
- Provide a summary of paid premiums and policy performance
- Provide current financial ratings of your insurance carriers

When life changes occur, we encourage you to contact us so we may review your planning strategy and ensure it continues to fit your situation. Changes in marital status, health, or assets could affect your needs.

**YOUR POLICIES**

POLICY	DEATH BENEFIT	ISSUED	ANNUAL PREM	SURRENDER VALUE
<b>Majestic UL Survivorship 98</b> <b>John Hancock USA, Policy# 5422201</b> Insured: John Q. and Nancy S. Client Owner & Beneficiary: John Q. Client and Nancy S. Client Irrevocable Insurance Trust Agreement Dated 11/22/1996	\$20,000,000	03/16/2006	\$130,000	\$948,026 (as of 05/08/2012)

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**CAPITAL STRATEGIES**

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**POLICY DETAIL**

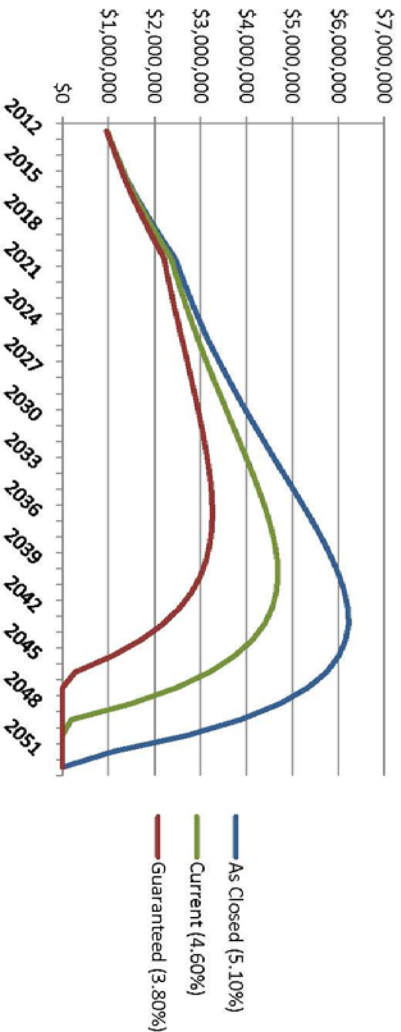
# Majestic UL Survivorship 98

John Hancock USA

Death Benefit: \$20,000,000

Insured:	John Q. and Nancy S. Client	As Of 05/08/2012
Owner & Beneficiary:	John Q. Client and Nancy S. Client	Total Premium Projected To Date: <b>\$1,040,000</b>
	Irrevocable Insurance Trust Agreement	
	Dated 11/22/1996	
Carrier:	John Hancock USA	Total Premium Paid To Date: <b>\$1,040,000</b>
Policy Number:	005422201	Current Death Benefit: <b>\$20,000,000</b>
Issue Date:	06/16/2006	Net Surrender Value: <b>\$948,026</b>

## PROJECTED SURRENDER VALUES



Benefits summarized above have been taken from the carrier's own illustrations and are subject to the same footnotes and disclaimers found on the original illustrations. Values for all policies contain guaranteed and non-guaranteed elements. NOT VALID WITHOUT ENCLOSED ILLUSTRATIONS. This is not an estimate of future performance. Over time, the policies' actual non-guaranteed elements, and perhaps your actual use of the policies' options, are likely to vary from the assumptions used in these illustrations. For these reasons, actual policy performance will either be more or less favorable than shown in these illustrations.

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# Majestic UL Survivorship 98 (cont.)

John Hancock USA

Death Benefit: \$20,000,000

Policy Year	Attained Age	Planned Premium	AS CLOSED		CURRENT PROJECTIONS				
			Surrender Value	Death Benefit	4.60% Current Rate Current Charges Values At End Of Policy	3.80% Guaranteed Rate Current Charges Values At End Of Policy			
2012	7	\$5/54	\$130,000	\$960,699	\$20,000,000	\$967,860	\$20,000,000	\$961,010	\$20,000,000
2013	8	56/55	\$130,000	\$1,102,922	\$20,000,000	\$1,105,117	\$20,000,000	\$1,089,461	\$20,000,000
2014	9	57/56	\$130,000	\$1,248,434	\$20,000,000	\$1,244,729	\$20,000,000	\$1,218,839	\$20,000,000
2015	10	58/57	\$130,000	\$1,397,356	\$20,000,000	\$1,386,754	\$20,000,000	\$1,349,125	\$20,000,000
2016	11	59/58	\$130,000	\$1,582,894	\$20,000,000	\$1,561,206	\$20,000,000	\$1,505,637	\$20,000,000
2017	12	60/59	\$130,000	\$1,780,401	\$20,000,000	\$1,745,769	\$20,000,000	\$1,669,636	\$20,000,000
2018	13	61/60	\$130,000	\$1,990,472	\$20,000,000	\$1,940,863	\$20,000,000	\$1,841,332	\$20,000,000
2019	14	62/61	\$130,000	\$2,213,672	\$20,000,000	\$2,146,866	\$20,000,000	\$2,020,878	\$20,000,000
2020	15	63/62	\$130,000	\$2,450,327	\$20,000,000	\$2,363,904	\$20,000,000	\$2,208,166	\$20,000,000
2021	16	64/63	\$0	\$2,574,862	\$20,000,000	\$2,467,029	\$20,000,000	\$2,279,321	\$20,000,000
2022	17	65/64	\$0	\$2,706,851	\$20,000,000	\$2,575,671	\$20,000,000	\$2,353,621	\$20,000,000
2023	18	66/65	\$0	\$2,846,433	\$20,000,000	\$2,689,822	\$20,000,000	\$2,450,905	\$20,000,000
2024	19	67/66	\$0	\$2,993,670	\$20,000,000	\$2,809,383	\$20,000,000	\$2,510,913	\$20,000,000
2025	20	68/67	\$0	\$3,148,592	\$20,000,000	\$2,934,217	\$20,000,000	\$2,593,339	\$20,000,000
2026	21	69/68	\$0	\$3,320,265	\$20,000,000	\$3,067,632	\$20,000,000	\$2,674,231	\$20,000,000
2027	22	70/69	\$0	\$3,498,876	\$20,000,000	\$3,204,459	\$20,000,000	\$2,754,632	\$20,000,000
2028	23	71/70	\$0	\$3,684,549	\$20,000,000	\$3,344,552	\$20,000,000	\$2,834,164	\$20,000,000
2029	24	72/71	\$0	\$3,876,830	\$20,000,000	\$3,487,155	\$20,000,000	\$2,911,810	\$20,000,000
2030	25	73/72	\$0	\$4,075,137	\$20,000,000	\$3,631,359	\$20,000,000	\$2,986,379	\$20,000,000
2031	26	74/73	\$0	\$4,278,758	\$20,000,000	\$3,776,092	\$20,000,000	\$3,056,496	\$20,000,000
2032	27	75/74	\$0	\$4,486,716	\$20,000,000	\$3,919,975	\$20,000,000	\$3,120,445	\$20,000,000
2033	28	76/75	\$0	\$4,697,663	\$20,000,000	\$4,061,207	\$20,000,000	\$3,176,043	\$20,000,000
2034	29	77/76	\$0	\$4,909,764	\$20,000,000	\$4,197,429	\$20,000,000	\$3,220,495	\$20,000,000
2035	30	78/77	\$0	\$5,120,775	\$20,000,000	\$4,325,798	\$20,000,000	\$3,250,453	\$20,000,000
2036	31	79/78	\$0	\$5,327,838	\$20,000,000	\$4,442,746	\$20,000,000	\$3,261,753	\$20,000,000
2037	32	80/79	\$0	\$5,526,858	\$20,000,000	\$4,543,302	\$20,000,000	\$3,248,666	\$20,000,000

Benefits summarized above have been taken from the carrier's own illustrations and are subject to the same footnotes and disclaimers found on the original illustrations. Values for all policies contain guaranteed and non-guaranteed elements. NOT VALID WITHOUT ENCLOSED ILLUSTRATIONS. This is not an estimate of future performance. Over time, the policies' actual non-guaranteed elements, and perhaps your actual use of the policies' options, are likely to vary from the assumptions used in these illustrations. For these reasons, actual policy performance will either be more or less favorable than shown in these illustrations.

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# Majestic UL Survivorship 98 (cont.)

John Hancock USA

Death Benefit: \$20,000,000

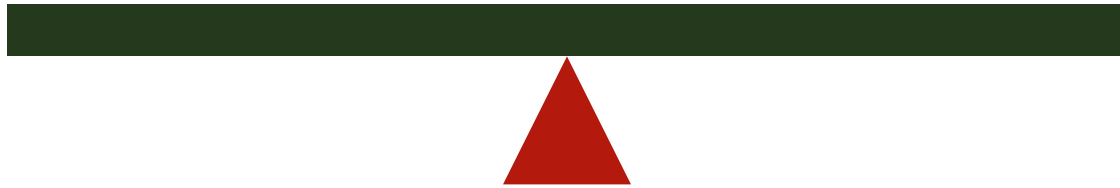
				AS CLOSED		CURRENT PROJECTIONS			
Year	Policy Year	Attained Age	Planned Premium	Surrender Value	Death Benefit	Surrender Value	Death Benefit	Surrender Value	Death Benefit
				5.10% Rate At Closing Charges At Closing Values At End Of Policy Year	4.60% Current Rate Current Charges Values At End Of Policy Year	3.80% Guaranteed Rate Current Charges Values At End Of Policy Year			
2038	33	81/80	\$0	\$5,713,445	\$20,000,000	\$4,622,047	\$20,000,000	\$3,204,904	\$20,000,000
2039	34	82/81	\$0	\$5,882,416	\$20,000,000	\$4,672,556	\$20,000,000	\$3,122,988	\$20,000,000
2040	35	83/82	\$0	\$6,026,649	\$20,000,000	\$4,686,317	\$20,000,000	\$2,993,040	\$20,000,000
2041	36	84/83	\$0	\$6,138,635	\$20,000,000	\$4,653,255	\$20,000,000	\$2,803,308	\$20,000,000
2042	37	85/84	\$0	\$6,207,332	\$20,000,000	\$4,560,386	\$20,000,000	\$2,538,624	\$20,000,000
2043	38	86/85	\$0	\$6,220,210	\$20,000,000	\$4,391,738	\$20,000,000	\$2,180,252	\$20,000,000
2044	39	87/86	\$0	\$6,161,617	\$20,000,000	\$4,127,498	\$20,000,000	\$1,704,869	\$20,000,000
2045	40	88/87	\$0	\$6,011,968	\$20,000,000	\$3,742,683	\$20,000,000	\$1,082,990	\$20,000,000
2046	41	89/88	\$0	\$5,746,656	\$20,000,000	\$3,205,676	\$20,000,000	\$277,245	\$20,000,000
2047	42	90/89	\$0	\$5,329,476	\$20,000,000	\$2,470,225	\$20,000,000	Lapsed	Lapsed
2048	43	91/90	\$0	\$4,722,666	\$20,000,000	\$1,486,968	\$20,000,000	Lapsed	Lapsed
2049	44	92/91	\$0	\$3,873,451	\$20,000,000	\$187,243	\$20,000,000	Lapsed	Lapsed
2050	45	93/92	\$0	\$2,704,687	\$20,000,000	Lapsed	Lapsed	Lapsed	Lapsed
2051	46	94/93	\$0	\$1,111,016	\$20,000,000	Lapsed	Lapsed	Lapsed	Lapsed
2052	47	95/94	\$0	Lapsed	Lapsed	Lapsed	Lapsed	Lapsed	Lapsed

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# Case Studies



# Case Studies

## Case Study #1: Coverage to Hedge Guarantee of Business Debt

### \$10,000,000 Face Amount Death Benefit

Carrier	Lincoln National	John Hancock	Prudential	TIAA-CREF
<b>1. Comdex</b>	90	90	90	99
<b>Term Contract</b>	<b>LifeElements 10</b>	<b>Term 10</b>	<b>Essential 10</b>	<b>M Intelligent Term 10</b>
<b>2. Conversion Privilege</b>	To Age 70	To Age 70	To Age 67	To Age 67
<b>3. Annual Term Premium<sup>1</sup></b>	\$56,110	\$70,300	\$64,685	\$65,185
<b>4. 10-Year Cumulative Term Premium</b>	\$561,100	\$703,000	\$646,850	\$651,850
<b>Permanent Contract</b>	<b>LifeGuarantee UL (2013)</b>	<b>Majestic ULX w/Pfmce Rider</b>	<b>M Premier VUL Protector</b>	<b>M Intelligent UL</b>
<b>5. Annual Permanent Premium<sup>1,2,3</sup></b>	\$208,368	\$193,825	\$216,676	\$182,570
<b>6. 10-Year Cumulative Permanent Premium</b>	\$2,083,680	\$1,938,250	\$2,166,760	\$1,825,700
<b>7. Cumulative Permanent Premium to Life Expectancy</b>	\$4,375,728	\$4,070,325	\$4,550,196	\$3,833,970
<b>Term + Conversion to Permanent</b>				
<b>8. Annual Permanent Premium After Term Conversion in 5 Years<sup>2,3,4</sup></b>	\$278,768	\$257,713	\$274,656	\$240,783
<b>9. Cumulative Permanent Premium After Term Conversion to Life Expectancy</b>	\$5,854,128	\$5,411,973	\$5,767,776	\$5,056,443
<b>10. Cumulative Term + Permanent Premium to Life Expectancy</b>	\$6,134,678	\$5,763,473	\$6,091,201	\$5,382,368

<sup>1</sup>Assumes male, Age 62, Standard Non-Tobacco. Estimated Life Expectancy 26 Years/Age 88. Subject to application, underwriting and physical examination.

<sup>2</sup>Policy terms and conditions vary. See complete illustrations for important details.

<sup>3</sup>Permanent policies designed to last through Insured's Age 100.

<sup>4</sup>Assumes Male, Age 67, Standard Non-Tobacco. "Annual Permanent Premium After Term Conversion in 5 Years" is the cost today of each permanent policy for an Insured five years older than the Insured's actual age. No assurance can be given that the permanent policies or premiums will be available in the future for conversion or otherwise.

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# Case Studies

## Case Study #2: Which Permanent Contract?

Per \$10,000,000 Level Death Benefit to Joint (Younger) Age 100<sup>1</sup>

Carrier (1)	Comdex (2)	Contract (3)	Crediting/Dividend Rate			Allocation (7)	Annual Premium (8)	NPV of Cumulative Premiums <sup>2</sup> (9)	Cash Surrender Value <sup>3</sup> (10)	Death Benefit IRR <sup>4,5</sup> (11)	Auto- Bind (millions) (12)
			Current (4)	Guaranteed (5)	Cap (6)						
New York Life	100	Whole Life	Current	N/A	N/A	N/A	\$241,820	\$5,021,584	\$16,782,376	5.06%	\$50.0
TIAA-CREF	99	CA UL	3.80%	2.80%	N/A	Fixed Account	\$84,054	\$1,745,448	\$1,876,676	6.68%	\$50.0
Nationwide	89	GUL	3.00%	3.00%	N/A	N/A	\$103,418	\$2,147,557	\$0	5.69%	\$45.0
Pacific Life	87	VUL	4.35%	2.00%	N/A	Fixed Account	\$109,211	\$2,267,853	\$4,619,074	5.42%	\$45.0
Pacific Life	87	VUL	5.50%	N/A	N/A	Weighted Average	\$103,712	\$2,153,662	\$4,576,804	5.67%	\$45.0
Pacific Life	87	IUL	4.20%	2.00%	N/A	Fixed Account	\$119,785	\$2,487,430	\$4,175,706	4.97%	\$45.0
Pacific Life	87	IUL	5.50%	0.00%	11.00%	1-Year Indexed Account	\$100,417	\$2,085,239	\$4,090,813	5.83%	\$45.0

Male, Age 62 ; Female, Age 57 ; Standard Non-Tobacco.

<sup>1</sup> New York Life Whole Life contract illustrated to lapse after Policy Year 64, Joint (Younger) Age 120.

<sup>2</sup> Net Present Value to end of Policy Year 33, Joint Age 95/90 (estimated joint life expectancy), assuming 3.0% discount rate.

<sup>3</sup> Non-guaranteed Cash Surrender Value at end of Policy Year 33, Joint Age 95/90 (estimated joint life expectancy).

<sup>4</sup> Internal Rate of Return at end of Policy Year 33, Joint Age 95/90 (estimated joint life expectancy), assuming lifepay premiums.

<sup>5</sup> New York Life Whole Life death benefit illustrated to be \$20,554,793 at Policy Year 33 due to paid-up additions.

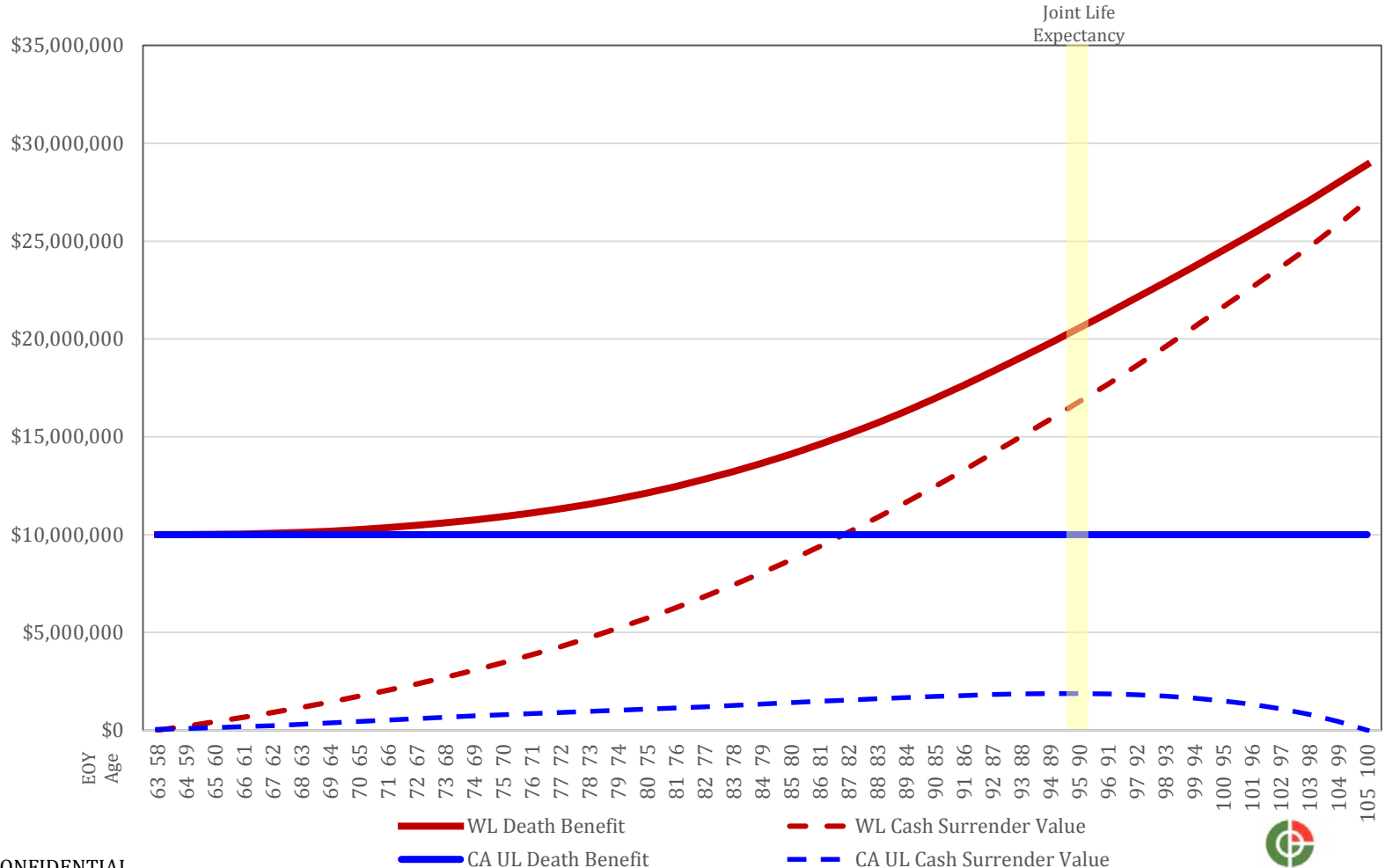
CAUL - Current Assumption Universal Life; VUL - Variable Universal Life; IUL - Indexed Universal Life; GUL - Guaranteed Universal Life

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# Case Studies

## Case Study #2: Which Permanent Contract?

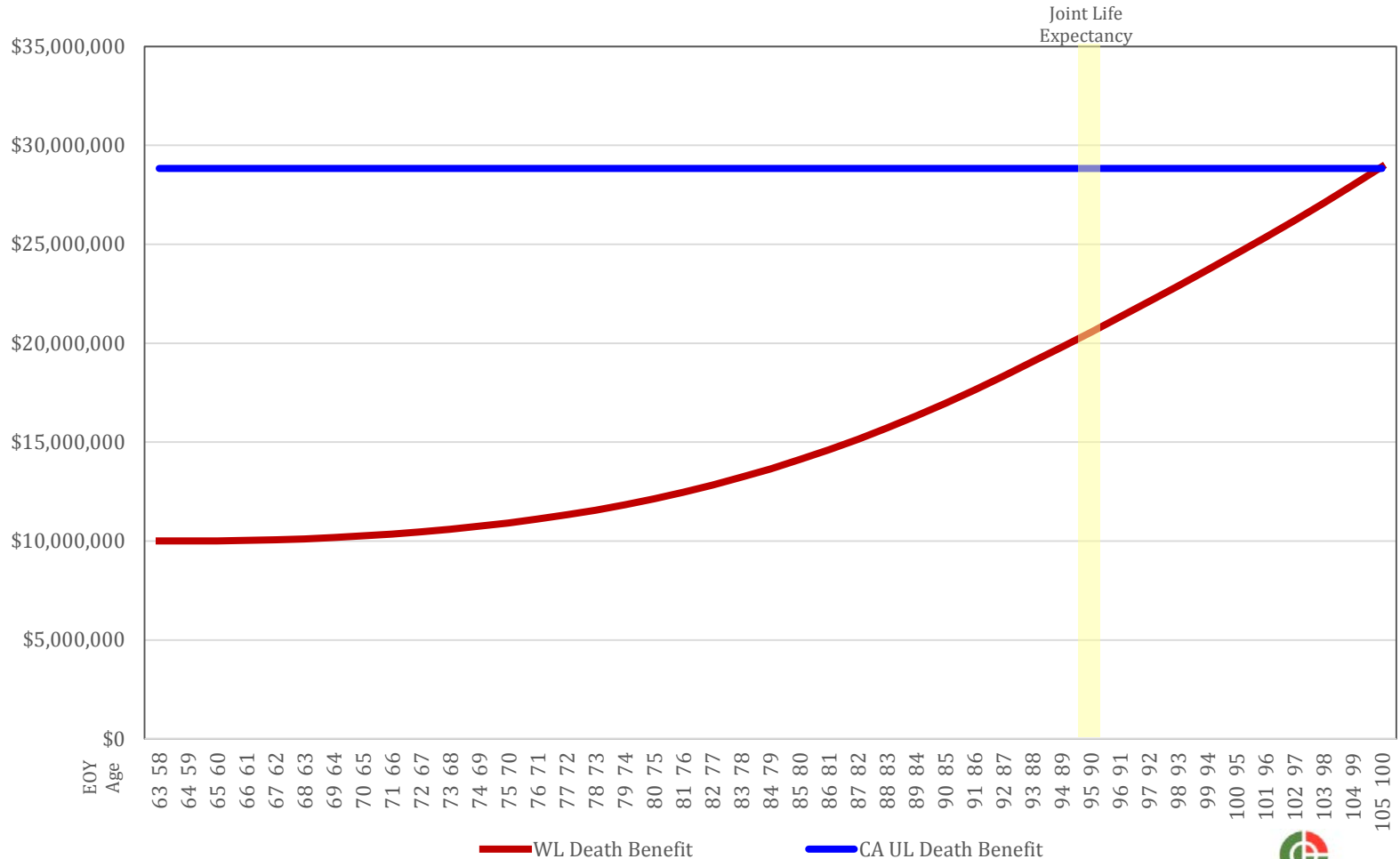
### Whole Life vs. Current Assumption Universal Life



# Case Studies

## Case Study #2: Which Permanent Contract?

Whole Life vs. Current Assumption Universal Life  
 Match Premium / Solve for Death Benefit



Whole Life death benefit continues to Joint (Younger) Age 120. Premium requirement terminates at J(Y)A100.  
 Whole Life and Current Assumption Universal Life Annual Premium: \$241,820.

# Case Studies

## Case Study #2: A Hybrid Approach

Policy Year	Age (EOY)	Guaranteed Universal Life				Current Assumption Universal Life				Combined GUL & CA UL			
		Annual Premium	Cash Surrender Value	Death Benefit	Death IRR	Annual Premium	Cash Surrender Value	Death Benefit	Death IRR	Annual Premium	Cash Surrender Value	Death Benefit	Death IRR
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	63	(258,545)	0	25,000,000	9569.50%	(209,755)	115,736	25,000,000	11818.67%	(468,300)	115,736	50,000,000	10576.92%
2	64	(258,545)	0	25,000,000	834.61%	(209,755)	232,343	25,000,000	942.87%	(468,300)	232,343	50,000,000	884.50%
3	65	(258,545)	0	25,000,000	321.23%	(209,755)	348,904	25,000,000	354.64%	(468,300)	348,904	50,000,000	336.77%
4	66	(258,545)	0	25,000,000	182.21%	(209,755)	464,365	25,000,000	199.43%	(468,300)	464,365	50,000,000	190.26%
5	67	(258,545)	0	25,000,000	122.21%	(209,755)	577,526	25,000,000	133.29%	(468,300)	577,526	50,000,000	127.41%
6	68	(258,545)	0	25,000,000	89.80%	(209,755)	765,672	25,000,000	97.83%	(468,300)	765,672	50,000,000	93.57%
7	69	(258,545)	0	25,000,000	69.84%	(209,755)	951,733	25,000,000	76.09%	(468,300)	951,733	50,000,000	72.78%
8	70	(258,545)	0	25,000,000	56.45%	(209,755)	1,134,146	25,000,000	61.56%	(468,300)	1,134,146	50,000,000	58.86%
9	71	(258,545)	34,450	25,000,000	46.91%	(209,755)	1,310,679	25,000,000	51.23%	(468,300)	1,345,129	50,000,000	48.95%
10	72	(258,545)	67,731	25,000,000	39.81%	(209,755)	1,485,700	25,000,000	43.55%	(468,300)	1,553,431	50,000,000	41.58%
11	73	(258,545)	78,552	25,000,000	34.34%	(209,755)	1,664,460	25,000,000	37.64%	(468,300)	1,743,012	50,000,000	35.90%
12	74	(258,545)	77,814	25,000,000	30.01%	(209,755)	1,831,701	25,000,000	32.97%	(468,300)	1,909,515	50,000,000	31.41%
13	75	(258,545)	42,889	25,000,000	26.51%	(209,755)	1,985,832	25,000,000	29.19%	(468,300)	2,028,721	50,000,000	27.78%
14	76	(258,545)	0	25,000,000	23.63%	(209,755)	2,132,326	25,000,000	26.08%	(468,300)	2,132,326	50,000,000	24.79%
15	77	(258,545)	0	25,000,000	21.22%	(209,755)	2,275,333	25,000,000	23.48%	(468,300)	2,275,333	50,000,000	22.29%
16	78	(258,545)	0	25,000,000	19.18%	(209,755)	2,424,438	25,000,000	21.28%	(468,300)	2,424,438	50,000,000	20.17%
17	79	(258,545)	0	25,000,000	17.43%	(209,755)	2,568,440	25,000,000	19.40%	(468,300)	2,568,440	50,000,000	18.36%
18	80	(258,545)	0	25,000,000	15.92%	(209,755)	2,710,983	25,000,000	17.76%	(468,300)	2,710,983	50,000,000	16.79%
19	81	(258,545)	0	25,000,000	14.60%	(209,755)	2,856,325	25,000,000	16.34%	(468,300)	2,856,325	50,000,000	15.43%
20	82	(258,545)	0	25,000,000	13.44%	(209,755)	3,009,437	25,000,000	15.09%	(468,300)	3,009,437	50,000,000	14.23%
21	83	(258,545)	0	25,000,000	12.42%	(209,755)	3,179,589	25,000,000	13.98%	(468,300)	3,179,589	50,000,000	13.16%
22	84	(258,545)	0	25,000,000	11.51%	(209,755)	3,352,013	25,000,000	13.00%	(468,300)	3,352,013	50,000,000	12.22%
23	85	(258,545)	0	25,000,000	10.69%	(209,755)	3,527,026	25,000,000	12.12%	(468,300)	3,527,026	50,000,000	11.37%
24	86	(258,545)	0	25,000,000	9.96%	(209,755)	3,700,729	25,000,000	11.32%	(468,300)	3,700,729	50,000,000	10.61%
25	87	(258,545)	0	25,000,000	9.29%	(209,755)	3,871,108	25,000,000	10.61%	(468,300)	3,871,108	50,000,000	9.92%
26	88	(258,545)	0	25,000,000	8.69%	(209,755)	4,033,589	25,000,000	9.95%	(468,300)	4,033,589	50,000,000	9.29%
27	89	(258,545)	0	25,000,000	8.14%	(209,755)	4,185,182	25,000,000	9.36%	(468,300)	4,185,182	50,000,000	8.72%
28	90	(258,545)	0	25,000,000	7.64%	(209,755)	4,325,626	25,000,000	8.82%	(468,300)	4,325,626	50,000,000	8.20%
29	91	(258,545)	0	25,000,000	7.19%	(209,755)	4,451,614	25,000,000	8.32%	(468,300)	4,451,614	50,000,000	7.73%
30	92	(258,545)	0	25,000,000	6.77%	(209,755)	4,559,957	25,000,000	7.86%	(468,300)	4,559,957	50,000,000	7.29%
31	93	(258,545)	0	25,000,000	6.38%	(209,755)	4,640,053	25,000,000	7.44%	(468,300)	4,640,053	50,000,000	6.88%
32	94	(258,545)	0	25,000,000	6.02%	(209,755)	4,686,500	25,000,000	7.05%	(468,300)	4,686,500	50,000,000	6.51%
33	95	(258,545)	0	25,000,000	5.69%	(209,755)	4,691,081	25,000,000	6.69%	(468,300)	4,691,081	50,000,000	6.16%
34	96	(258,545)	0	25,000,000	5.38%	(209,755)	4,641,253	25,000,000	6.35%	(468,300)	4,641,253	50,000,000	5.84%
35	97	(258,545)	0	25,000,000	5.09%	(209,755)	4,532,096	25,000,000	6.04%	(468,300)	4,532,096	50,000,000	5.54%
36	98	(258,545)	0	25,000,000	4.82%	(209,755)	4,347,305	25,000,000	5.75%	(468,300)	4,347,305	50,000,000	5.26%
37	99	(258,545)	0	25,000,000	4.57%	(209,755)	4,093,410	25,000,000	5.47%	(468,300)	4,093,410	50,000,000	5.00%
38	100	(258,545)	0	25,000,000	4.34%	(209,755)	3,751,967	25,000,000	5.22%	(468,300)	3,751,967	50,000,000	4.76%
39	101	(258,545)	0	25,000,000	4.12%	(209,755)	3,305,248	25,000,000	4.98%	(468,300)	3,305,248	50,000,000	4.53%
40	102	(258,545)	0	25,000,000	3.91%	(209,755)	2,743,995	25,000,000	4.75%	(468,300)	2,743,995	50,000,000	4.31%
41	103	(258,545)	0	25,000,000	3.72%	(209,755)	2,034,313	25,000,000	4.54%	(468,300)	2,034,313	50,000,000	4.11%
42	104	(258,545)	0	25,000,000	3.53%	(209,755)	1,136,519	25,000,000	4.34%	(468,300)	1,136,519	50,000,000	3.92%
43	105	(258,545)	0	25,000,000	3.36%	(209,755)	1,029	25,000,000	4.15%	(468,300)	1,029	50,000,000	3.74%

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Male, A62, Std NT, Estimated Life Expectancy = H Age 88 Female, A57, Std NT, Estimated Joint Life Expectancy = W Age 90

----- Lapse at Guaranteed Rate/Guaranteed Charges

----- Lapse at Guaranteed Rate/Non-Guaranteed Current Charges

GUL - Nationwide M proprietary Marathon SUL NLG II. CA UL - TIAA-CREF M Financial Group proprietary M Intelligent Survivorship UL, assuming non-guaranteed current interest crediting rate of 3.80% Years 1-10 and 4.30% Years 11+; and non-guaranteed current policy charges.

CAPITAL STRATEGIES



# Case Studies

## Case Study #2: A Timing Approach

### "Bell Curve Funding"

Policy Year (1)	Age (EOY) (2)	Annual Premium (3)	Cash Surrender Value (4)	Death Benefit (5)	Death Benefit IRR (6)
1	63 58	(218,352)	42,101	50,000,000	22798.81%
2	64 59	(218,352)	78,108	50,000,000	1364.06%
3	65 60	(218,352)	105,916	50,000,000	475.06%
4	66 61	(218,352)	123,133	50,000,000	259.06%
5	67 62	(218,352)	127,069	50,000,000	170.72%
6	68 63	(218,352)	270,741	50,000,000	124.49%
7	69 64	(218,352)	398,531	50,000,000	96.60%
8	70 65	(218,352)	506,805	50,000,000	78.15%
9	71 66	(218,352)	590,507	50,000,000	65.14%
10	72 67	(218,352)	643,920	50,000,000	55.52%
11	73 68	(218,352)	680,783	50,000,000	48.14%
12	74 69	(218,352)	676,784	50,000,000	42.33%
13	75 70	(218,352)	627,752	50,000,000	37.64%
14	76 71	(218,352)	544,563	50,000,000	33.78%
15	77 72	(218,352)	435,288	50,000,000	30.56%
16	78 73	(218,352)	319,882	50,000,000	27.83%
17	79 74	(218,352)	172,785	50,000,000	25.50%
18	80 75	(845,682)	618,417	50,000,000	23.34%
19	81 76	(845,682)	1,070,273	50,000,000	21.44%
20	82 77	(845,682)	1,539,160	50,000,000	19.74%
21	83 78	(845,682)	2,044,989	50,000,000	18.21%
22	84 79	(845,682)	2,555,056	50,000,000	16.82%
23	85 80	(845,682)	3,070,028	50,000,000	15.57%
24	86 81	(845,682)	3,581,460	50,000,000	14.42%
25	87 82	(845,682)	4,085,173	50,000,000	13.37%
26	88 83	(845,682)	4,571,600	50,000,000	12.41%
27	89 84	(845,682)	5,034,811	50,000,000	11.52%
28	90 85	(845,682)	5,474,858	50,000,000	10.70%
29	91 86	(845,682)	5,885,357	50,000,000	9.94%
30	92 87	(845,682)	6,260,370	50,000,000	9.24%
31	93 88	(845,682)	6,578,521	50,000,000	8.59%
32	94 89	(845,682)	6,829,962	50,000,000	7.99%
33	95 90	(845,682)	6,999,317	50,000,000	7.44%
34	96 91	(845,682)	7,062,702	50,000,000	6.92%
35	97 92	(845,682)	7,012,893	50,000,000	6.44%
36	98 93	(845,682)	6,819,533	50,000,000	6.00%
37	99 94	(845,682)	6,500,441	50,000,000	5.58%
38	100 95	(845,682)	6,022,060	50,000,000	5.20%
39	101 96	(845,682)	5,353,694	50,000,000	4.84%
40	102 97	(845,682)	4,483,255	50,000,000	4.51%
41	103 98	(845,682)	3,350,021	50,000,000	4.19%
42	104 99	(845,682)	1,884,505	50,000,000	3.90%
43	105 100	(845,682)	1,017	50,000,000	3.63%

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Estimated First Life Expectancy = H Age 88

Estimated Joint Life Expectancy = W Age 90



# Case Studies

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## *Case Study #2: A Balancing Act*

### ▪ Hybrid

- *GUL + CA UL Total Premium to Life Expectancy: \$15,453,900*
- *NPV of Total Premium to Life Expectancy: \$9,724,620*
- *Total Premium First Ten Years: **\$4,683,000***

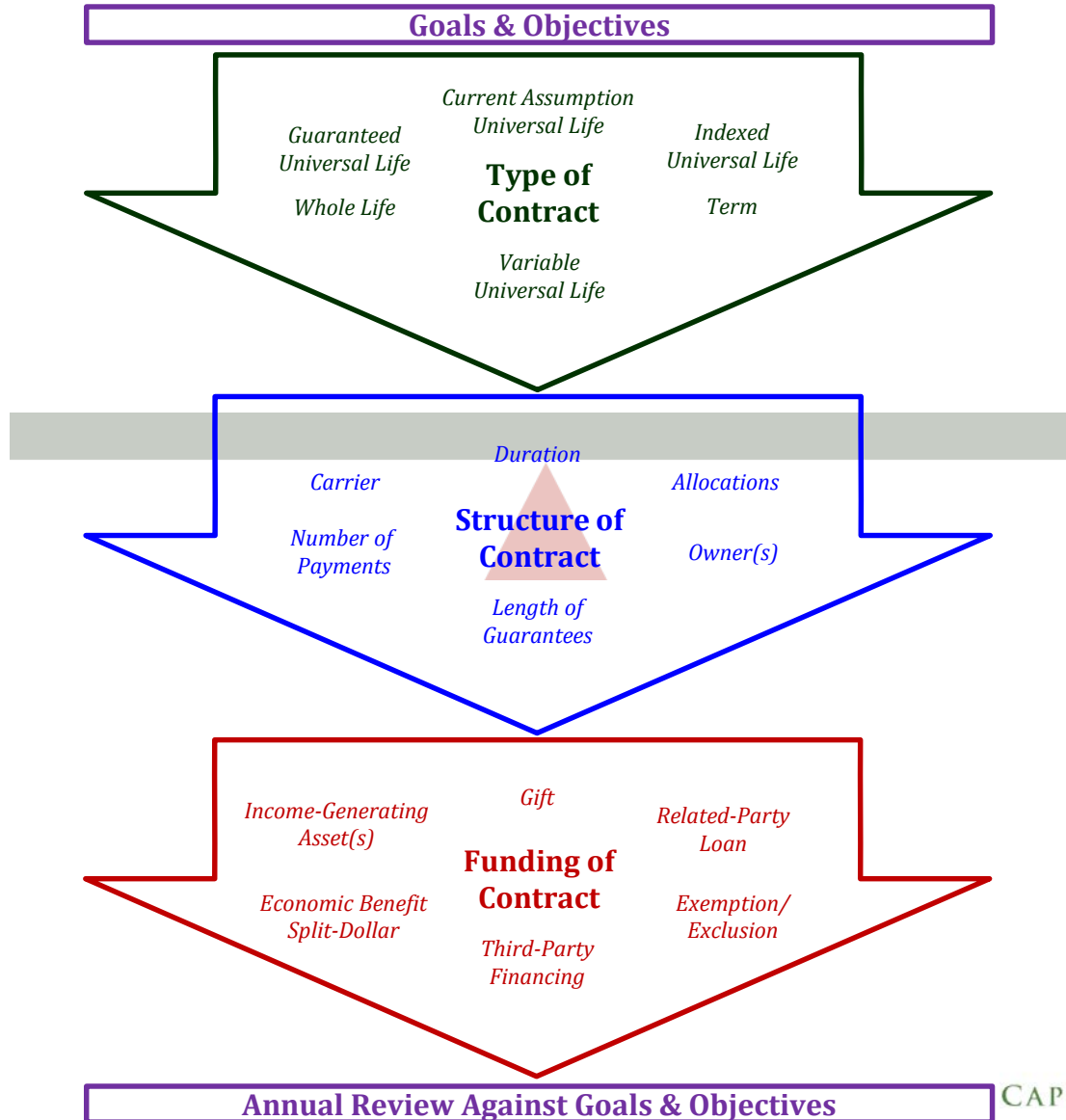


### ▪ Timing

- *Bell Curve Funding Total Premium to Life Expectancy: \$17,242,896*
- *NPV of Total Premium to Life Expectancy: \$9,301,755*
- *Total Premium First Ten Years: **\$2,183,520***

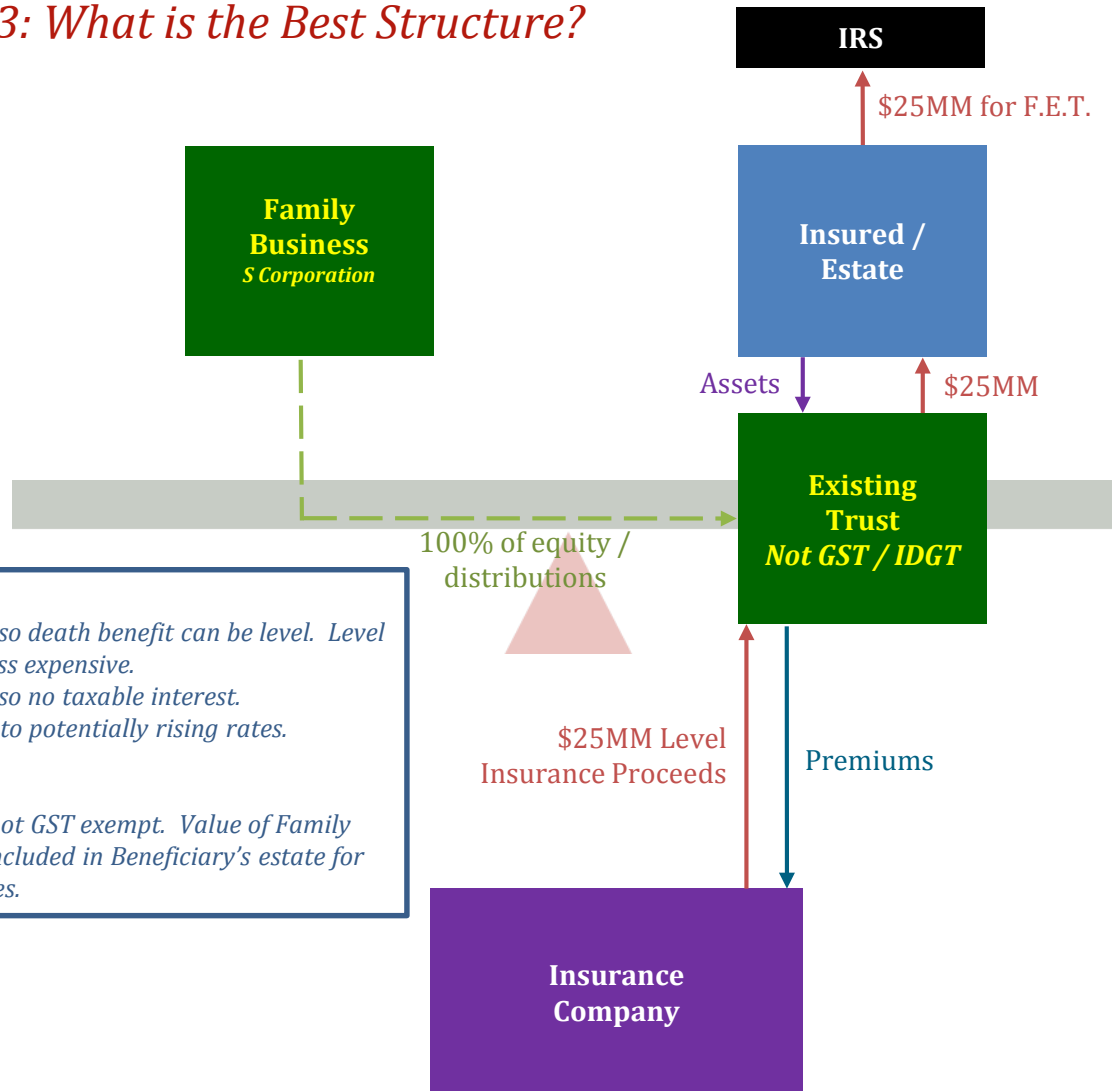
# Case Studies

## Case Study #3: What is the Best Structure?



# Case Studies

## Case Study #3: What is the Best Structure?



Pros:

1. No loan to repay, so death benefit can be level. Level death benefit is less expensive.
2. No loan to repay, so no taxable interest.
3. No loan exposure to potentially rising rates.

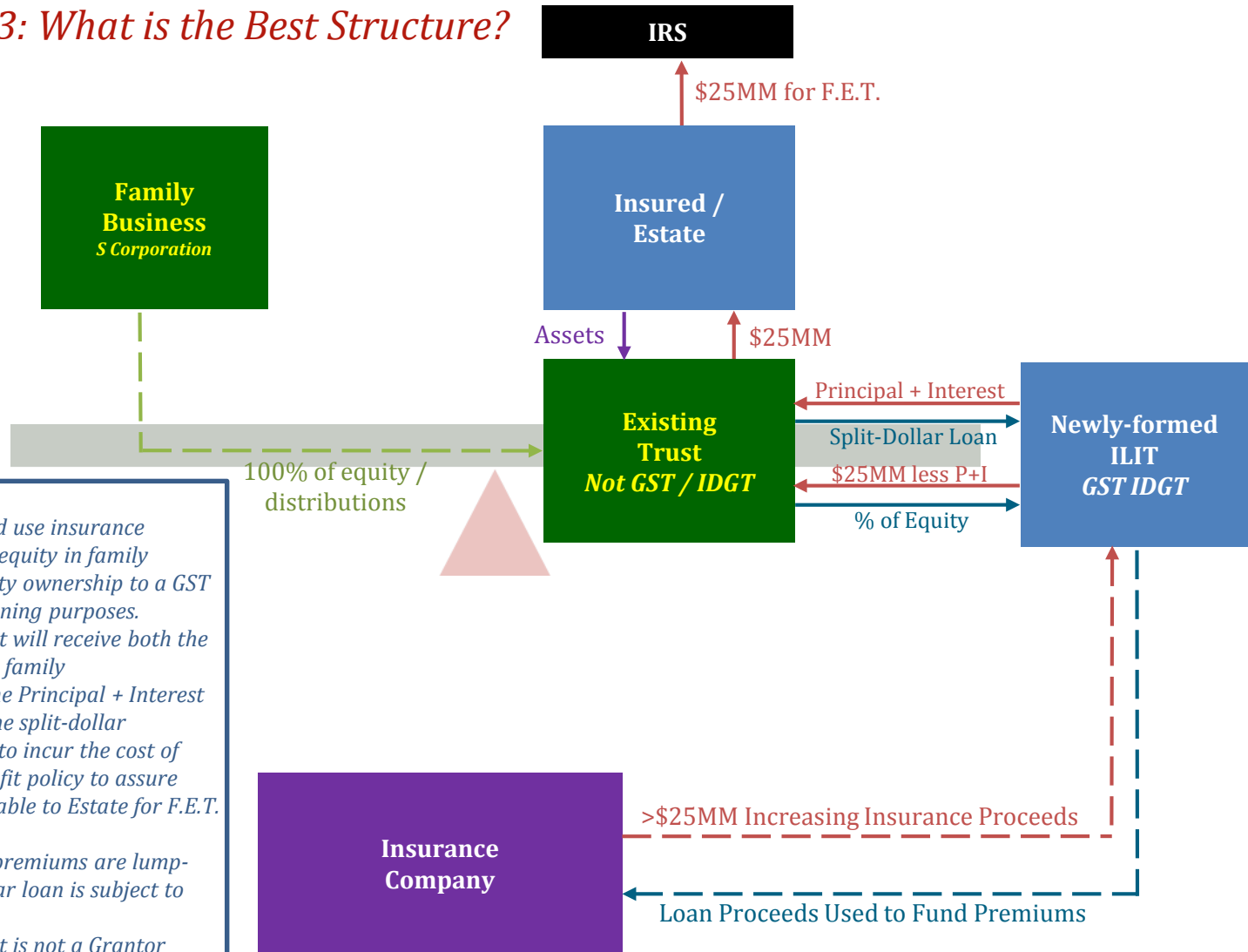
Cons:

1. Existing Trust is not GST exempt. Value of Family Business will be included in Beneficiary's estate for estate tax purposes.

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# Case Studies

## Case Study #3: What is the Best Structure?



**Pros:**

1. Beneficiary ILIT would use insurance proceeds to purchase equity in family business, shifting equity ownership to a GST vehicle for estate planning purposes.
2. Because Existing Trust will receive both the purchase price for the family business equity and the Principal + Interest upon satisfaction of the split-dollar loan, there is no need to incur the cost of increasing death benefit policy to assure that \$25.0MM is available to Estate for F.E.T.

**Cons:**

1. Unless the insurance premiums are lump-sum funded, split-dollar loan is subject to risk of rising rates.
2. Because Existing Trust is not a Grantor Trust, payments from Beneficiary ILIT currently taxable to Existing Trust.

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# On the Radar



# On Your Radar

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## *Policy Charge Increases*

- Five carriers raised cost of insurance (COI) rates for in-force policies in 2015

- *Transamerica*
- *Banner*
- *William Penn*
- *AXA / U.S. Life*
- *Voya*



- Causes

- *Historically low interest rates*
- *Adverse mortality*
- *Increased reinsurance rates*
- *Decreasing profitability*



# On Your Radar

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## *Policy Charge Increases*

- Cost of Insurance (COI) for Universal Life is the cost of paying insurance death claims (“Mortality Charge”) plus recovery of carrier expenses and an interest rate spread
  - *COI for Whole Life is more of a “Black Box” but WL policies are subject to increases*
- Interest Crediting Rates
  - *Cash-bearing contracts (VUL contracts only if allocated to Fixed Account) credit policy cash values with an interest rate determined by the carrier*
  - *Interest Crediting Rates are derived from investment earnings plus an interest spread*
  - *Crediting rates are subject to guaranteed minimums that are typically backed by the carrier’s investment portfolio*
- Carriers have maintained priced-for interest margins by lowering crediting rates
  - *Older products with guaranteed minimum crediting rates in the 4%-5% range might not be covering priced-for margins*



# On Your Radar

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## *Policy Charge Increases*

- Increases are uncommon

- *Industry, policyholders and media have reacted even to the small number of increases to date*
- *Carriers will remain reluctant to raise charges*

- Additional increases are possible

- Manage the risk

- *Pay attention to carrier actions*
- *Regular review of:*
  - *Policy performance*
  - *§1035 exchange options*
  - *Policy surrender for cash value options*
  - *Life Settlement options*

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# On Your Radar

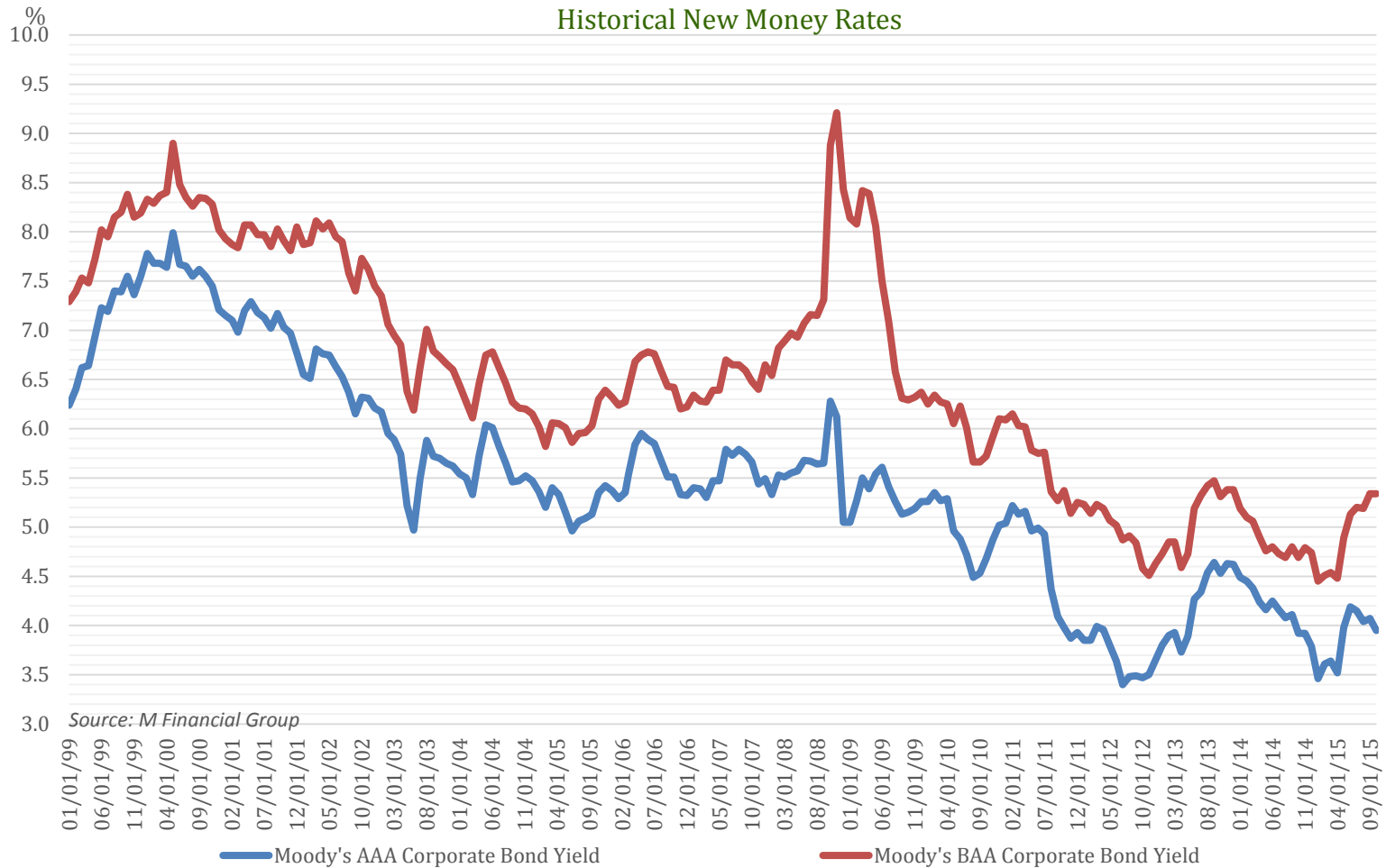
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## *Interest Rates*

- Insurers invest in high-quality bonds and mortgages (*Aaa and Baa*)
- New money fixed income rates have generally declined for 30+ years
- Portfolio yields lag new money rates
- Interest Crediting Rates in cash-bearing insurance contracts are tied to carrier portfolio yields, whether WL, CA UL, or VUL/IUL (*allocated to the Fixed Account option*)
- Even without regard to the possibility of carriers raising policy charges (*above*), depressed portfolio yields will exert pressure on cash-bearing policy performance for at least the near term

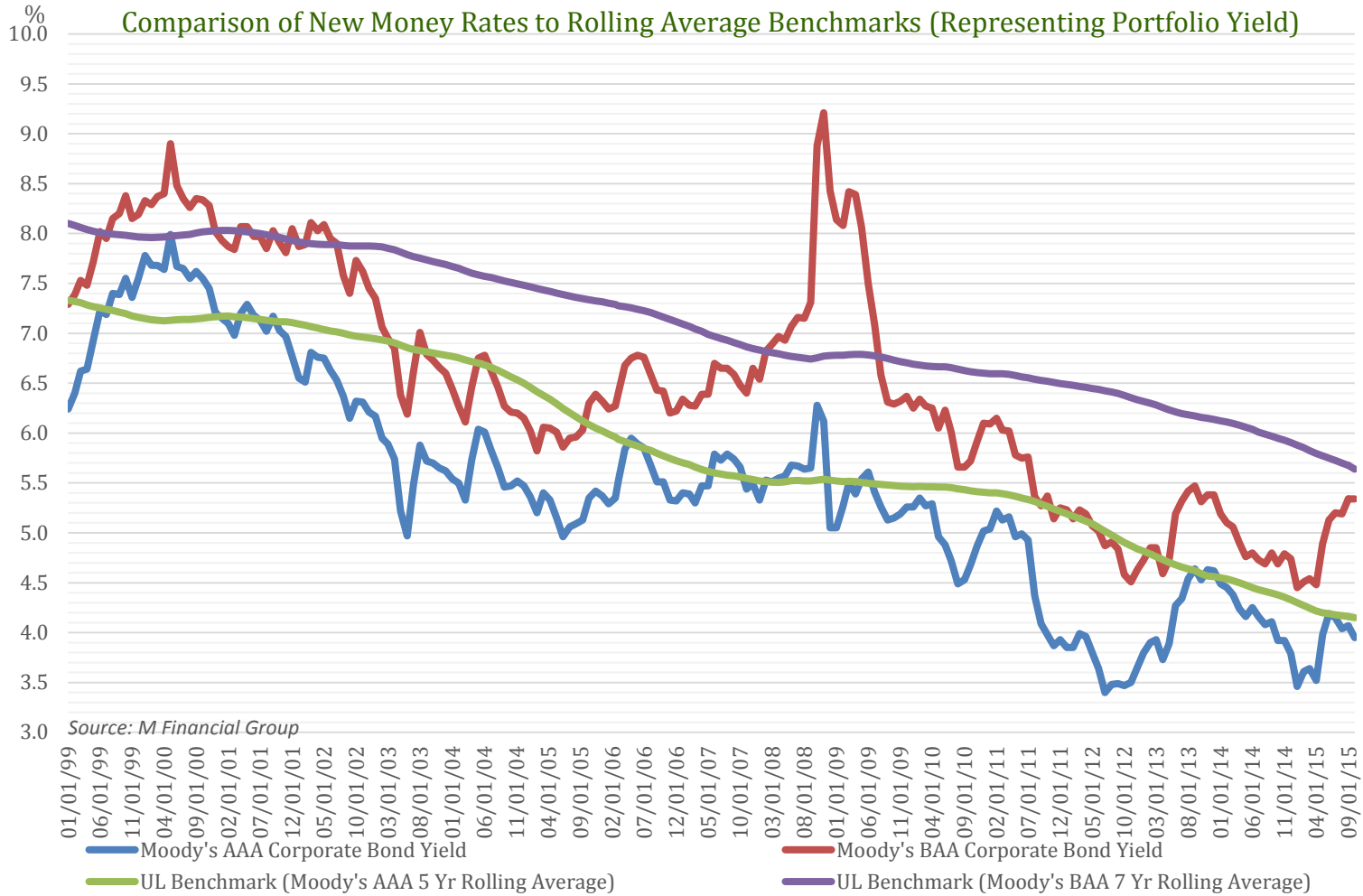
# On Your Radar

## Interest Rates



# On Your Radar

## Interest Rates



# On Your Radar

## Interest Rates

