Life Insurance to Advance Capital from a Trust

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We are just now in the process of settling a death claim for coverage placed a little over 15 years ago. Our client was a 61-year-old professional gentleman, a beneficiary of a trust, who requested an "advance from the trust."

The problem was that he might not be entitled to the funds if he should die leaving grandchildren not yet born. His three children were consenting to the advance but of course, they couldn't speak for unborn children.

So an agreement was struck with the "Children's Lawyer" permitting him to withdraw $2M from the trust so long as he left behind sufficient assets; in this case, a paid up insurance contract in the amount of $2M payable to those potential grandchildren. Great care was taken to minimize the risk that the insurance might not pay out- for e.g. the suicide clause and contestability clauses were negotiated/modified.

Special arrangements were made as well to ensure no premiums could ever be missed. While this is more difficult today without the availability of single premium contracts and because of the forthcoming changes to the exempt policy rules, special arrangements to pay the premiums is still quite achievable.

In the end, this insurance will have performed exactly as planned, enabling our client access to funds he required while ensuring potential beneficiaries were taken into account and dealt with equitably.

It was an excellent example of the role that properly structured insurance funding can play in providing liquid, tax free, capital at precisely the moment it is needed. In this case the insurance is not subject to probate and the IRR on the premium payments over 15 years turns out to have been an excellent investment return as well.