



PREMIER

BROKERAGE SERVICES, INC.

DIVERSIFICATION USING GUARANTEED REFUND OPTION RIDER

Clients have quite a few different needs when it comes to life insurance. Some are temporary, while others are permanent. So how do you find one policy that can meet all of their needs? Most often, you don't. You may just need to shift their way of thinking about life insurance coverage similar to how they think about their investment portfolio.

A **Diversified Life Strategy** can help you design customized solutions for clients, providing significant flexibility for changing needs. With this approach, clients allocate the premium for their life insurance needs among two or more policies in order to diversify amongst product types, riders, policy durations, and insurance carriers. This strategy allows you to **meet multiple needs** and **balance product and carrier risk**.

Guaranteed Refund Option riders (GRO) is a key feature that some permanent life insurance products now offer that allows you to build a portfolio of policies that complement each other. The Guaranteed Refund Option Rider complements a broader overall financial plan by providing options in later years.

Consider some of the many ways how a client can diversify their portfolio by taking advantage of Guaranteed Refund Option riders:

Small Business Owner

Joe is a 50-year-old small business owner who would like to sell his business in 20 years and use the proceeds to fund his retirement with his wife Linda. Joe also would like to provide Linda financial support in the event that he dies unexpectedly before the business sells. His advisor determines Joe needs \$1 million of guaranteed GUL with a GRO rider. His concern is he may not need the entire amount if he lives and sells the business.

Solution: Joe buys two \$500,000 GUL policies from two insurance companies, both guaranteed to age 100 with a GRO rider. He also adds a Chronic illness rider to one policy. If he sells his business as planned, he can execute his ROP rider on one policy and receive a refund of all premiums paid, in turn utilizing those funds to pay the balance of the premium due on the policy with the Chronic illness rider. If he dies prematurely, Linda has \$1 million of tax- free death benefit to help support her retirement.

RELATIONSHIPS FIRST

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Wealth Transfer

John is an affluent 65-year-old retired business owner seeking a **low cost, tax-efficient wealth transfer strategy**. He's looking for guaranteed insurance with a competitive internal rate of return (IRR) at death to complement his legacy assets which are held in taxable investments. John also would like **the flexibility to potentially eliminate or reduce his life insurance** in response to **future liquidity needs and tax laws changes** if needed.

Solution: John purchases \$10 million in GUL. Since an "exit strategy" may be desired, John purchases a design with two 5 million GUL policies. John has multiple opportunities to surrender one or both policies starting in year 20. If he doesn't exercise the GRO rider and continues paying premiums, he increases his IRR at death by 40% versus his taxable investment.

Business Succession Planning

Steven is a 35-year-old key person/manager in a tractor supply company. The owner Sam is 57 years old. Sam doesn't have a succession plan with a family member to take over the business when he retires or dies. Steven desires to purchase the business from Sam in the future.

Solution: Steven and Sam create a buy-out agreement triggered by retirement, illness, or death. Steven purchases \$2.5 million of GUL with a GRO rider on Sam to fund the agreement. The company bonuses the premium to Steven and he pays the taxes. **In the event of Sam's illness or retirement, Steven has the option of executing his GRO feature starting in year 15 to help fund the buy-out.** In the event of Sam's death, Steven will buy the business from Sam's spouse Mary for \$2.5 million.

The bottom line is that a diversification strategy utilizing Guaranteed Refund Option riders offers clients the ability for guaranteed low-cost protection now with significant future flexibility.

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