

Industry Insights

A Thanksgiving Tale of “The Three Sisters”

THE THREE SISTERS

The heroines of our fictitious story are identical triplets who were born in United States. They grew up together and were alike in every way. In fact, they were so alike, when they applied for the same indexed universal life insurance policy at the same time (age 30), they were each given the same “Best Class” underwriting offer from the same U.S. insurance company. They each paid the same premium amounts under the same planned premium schedule to endow their \$5MM policy at age 100. Other than the name of the insured, the three life insurance policies were identical and performed identically as follows:



Policy Year	Age	Cumulative Premiums	Cash Surrender Value	Death Benefit
5	35	\$ 150,000	\$ 84,500	\$ 5,000,000
10	40	\$ 300,000	\$ 220,000	\$ 5,000,000
55	85	\$ 300,000	\$ 2,300,000	\$ 5,000,000

THE SEPARATION

The sisters attended different universities for their graduate degrees. The eldest (by 3 minutes) enrolled in a London-based university. The second born attended a university in Toronto, Canada and the youngest started a program at a small college in upstate New York. They each met their soulmate, got married and stayed, taking up residency not far from their respective graduate school campuses.

THE ISSUES

Despite having identical policies, the failure of two of the sisters to review their life insurance in the context of changes in their lives led to unexpected and unwanted results.

Sister	Country	Policy’s Local Tax Status	Income Taxation During Lifetime	Income Taxation at Death at Age 85 ¹
#1	UK	“Non-Qualifying”	No UK income taxation assuming a “chargeable gain” doesn’t arise	\$2MM of chargeable gain (\$2.3MM-\$300K) subject to UK Income Tax
#2	Canada	“Non-Exempt”	Accrued cash value gains ² subject to Canadian Income Tax annually	Cash value gain ² accrued in year of death subject to Canadian Income Tax
#3	U.S.	U.S. IRC §7702 Compliant	None	None

¹ Ignores impact of currency exchange and US estate/UK inheritance tax.

² Accrued gain is determined by the policy’s adjusted cost basis (“ACB”) not cumulative premiums paid.

WE CAN HELP

Regular life insurance portfolio reviews help to avoid pitfalls and can help clients save money. Cross-border and international life insurance planning is complicated and complicated problems require expert solutions. To learn how we can help, contact us at peter@pagconsultingllc.com or visit us at www.pagconsultingllc.com.

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