

## Media Mentions



### Using Life Insurance For Art Succession Planning

**This is an often-missed revenue opportunity for advisors**

By Michael Mendelsohn and Paige Stover Hague

If any of your clients are high net worth individuals, chances are that a good percentage of them collect art, antiques and other collectibles. Collecting is a multi-billion dollar passion, and while many Americans boast modest or substantial art and antiques collections, few are aware of the planning opportunities available for the disposition of their collections—including the use of life insurance policies for art succession planning.

Failure to plan for the disposition of a collection during the lifetime of the collector will mean a heavy federal tax burden and a hurried auction sale that can diminish the collection's value by as much as 70% once the taxes and transaction fees are considered. Still, many financial, legal, and insurance advisors fail to account for art, antiques, and collectibles in the planning process, forgetting that these assets can amount to a significant percentage of the client's net worth and merit close scrutiny in the estate planning process. In many cases, art and antiques are lumped into the tangible personal property line item on the advisor's questionnaire and no further inquiry is made as to the extent of the collection.



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### Art Succession Planning

Art succession planning, when done thoughtfully, can create numerous planning opportunities for insurance professionals. For example, an irrevocable life insurance trust can be used as a wealth replacement vehicle when the collector wishes to gift items in the collection, and life insurance can fund a museum endowment.

Life insurance can also serve as a much needed source of funds to pay a tax liability if the collector's children prefer to receive the art rather than the cash value of the pieces. As such, an insurance professional is frequently an indispensable member of a collector's art advisory team.

Creative use of life insurance policies as part of an effective art succession plan also means more business for the savvy insurance professional. By raising awareness about the role of life insurance in art succession planning among collector clients, their advisory team, and the planned giving departments looking to benefit from the philanthropy of collectors, insurance professionals can broaden the spectrum of planning options available to collector clients and help them more readily accomplish their intentions for the collection.

Consider the following methods when discussing art succession planning with your clients:

The great swap: using irrevocable life insurance trusts for wealth replacement.

Most often, irrevocable life insurance trusts are used by estate planning attorneys as a wealth replacement strategy, and they can be particularly helpful for collectors.

Substantial estate taxes are one of the most costly considerations in art succession planning. Take,

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for example, the collector who leaves her valuable contemporary art collection to her two children. In most cases, the heirs will be so burdened by estate taxes that they will likely have to liquidate the collection just to pay the IRS. By establishing an ILIT, however, the collection can be bequeathed to the children along with a source of funds to pay the tax liability.

To raise cash for the premiums on the life insurance policy, less important pieces in the collection can be sold or gifted to a related use space, turning the collector into a philanthropist (opposed to a tax payer) and creating premium dollars with approved IRS tax savings.

Most collectors have some pieces in their collections that are of lesser quality or to which they are no longer emotionally attached. Those can be liquidated, with the trust using the proceeds to purchase the policy and naming the heirs as beneficiaries. At the collector's death, the proceeds, if handled correctly, will pass to the heirs tax-free, enabling them to enjoy the art and in many cases keep the collection intact.

The great escape: using charitable remainder trusts to avoid substantial capital gains taxes.

Collectors often need to raise cash for current living expenses and may instinctively opt to sell off valuable pieces that have significantly appreciated since the collectors acquired them. As a result, they will be hit with a large capital gains tax at the time of the transaction. Unfortunately, a little known fact in the advisory community is that the capital gains rate for art and antiques assets is 28%.

A better option is to create a charitable remainder trust into which the collector can transfer the art, sell the piece, and invest the proceeds. Using a charitable remainder trust can not only help avoid high capital gains taxes and estate taxes, it can also create a stream of income during the collector's lifetime. Ultimately, the remainder interest in the trust can benefit charities dear to the heart of the collector.

This technique results in assets under management for an investment advisor and can trigger wealth replacement planning opportunities in the form of insurance products for appropriate clients.

The great legacy: using life insurance to fund museum endowments.

Collectors with significant pieces will often consider gifting a piece to a museum to create a family art legacy. But often, museums will require a cash endowment or curatorial fund to accompany the gift.

Instead of funding the endowment with cash, suggest that your clients purchase a life insurance policy that will fund the endowment upon their death. The museum can be named as both owner and beneficiary of the policy, which will mean the premium payments will be fully deductible to your client. To pay the premiums, cash can be generated by borrowing off less valuable



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pieces or selling or gifting lesser ones.

The savvy insurance professional is an invaluable asset in effective art succession planning, particularly for high net worth clients with more substantial collections. By advising your clients about the need for art succession planning, you will help them preserve the value of their collections and ensure that their intentions will be carried out while introducing the use of insurance products in their planning.

Art and antiques also open the door for you to become a more fully integrated member of the advisory team since the attorney and the tax accountant are not accustomed to using these techniques to plan for the disposition of personal property. You will win the confidence of these other professionals and your clients by posing innovative solutions that preserve the value of clients' collections, benefit the charities they care about and give more to their kids.

