

When You Talk Trusts, Don't Forget About Insurance

A hot topic on the minds of many of your baby boomer clients is how to prepare for the transfer of wealth to their children, relatives and other beneficiaries.

To provide clients with holistic wealth management advice, financial planners need to be able to examine the benefits of various wealth transfer techniques, as well as the ways insurance can protect these assets.

When searching for the best way to transfer their wealth, many Americans have chosen trusts and limited liability corporations over standard wills because of their ability to provide the most estate protection from creditors and to temporarily shield beneficiaries from excessive tax burdens.

In fact, the Internal Revenue Service reported that 3.7 million trusts existed in 2004 and that that number is likely to grow to 3.9 million by 2008. In addition to the number of trusts on the rise, the value of assets held in trusts rose to \$85 billion in 2004.

Assets can be vulnerable

Although the establishment of an entity such as a trust or an LLC allows its creator to set the rules for how their assets are handled, it also can leave those assets vulnerable to loss if they are not properly insured.

When your clients transfer assets into trusts or LLC's, the insurance coverage that previously had protected those assets does not transfer with them.

Let's examine three common scenarios:

In the first, one of your clients decides to place their home into a trust and continues to live in the home.

As your client is the name insured on their current homeowners policy, that coverage no longer provides financial protection from loss once ownership of the home has been transferred into a trust.

The client can try to solve this coverage gap by canceling their existing homeowners policy and purchasing one in which the trust is listed as the named insured.

However, this strategy will leave the client exposed to liability risks arising from occupation of the home, and the client will forfeit insurance coverage from the personal belongings located in the residence.

There are two solutions that can close these coverage gaps. Your clients can purchase homeowners policies in the name of the trust and also purchase separate homeowners tenant policies.

Another approach is that your clients can leave their homeowners insurance in their name and recognize the trust as an additional interest through an endorsement to the original homeowners policy. Many insurance companies will add such an endorsement to an existing policy at no additional cost.

Each of these solution can insure against property and liability exposures that may arise related to both the trust's and the client's interest in the home. Financial advisers can suggest that their clients consult with independent insurance agents to determine which solution is the most beneficial.

In the second scenario, your clients have art or antique collections that have been placed in trusts or LLCs.

In many cases, these collections can be insured adequately when the entity is listed as the named insured.

However, if the ownership of the collection is split between your client and the entity, financial planners should encourage these clients to consider purchasing a separate valuable-article policy for the fine arts they continue to own and one for those that are held by the trust.

The final example to address is a trust or LLC that is involved in the acquisition or liquidation of assets. Financial planners can mention that these types of entities should be assessed carefully by qualified underwriters to determine what types of commercial exposure these entities create.

If there are commercial exposures, independent agents and brokers can set up a commercial insurance program with errors and omissions and general liability insurance.

Wealth preservation essential

Knowledge of the risks related to the transfer of ownership to trusts and LLCs is an essential part of any financial planner's wealth preservation program. Financial planners who understand the exposure clients may face through trusts and LLCs and who are knowledgeable about the insurance solutions can add a valuable risk management technique to their wealth preservation arsenal and also demonstrate their capability to manage their clients' wealth holistically.

Fiske, James. Investment News. 12 March, 2007.