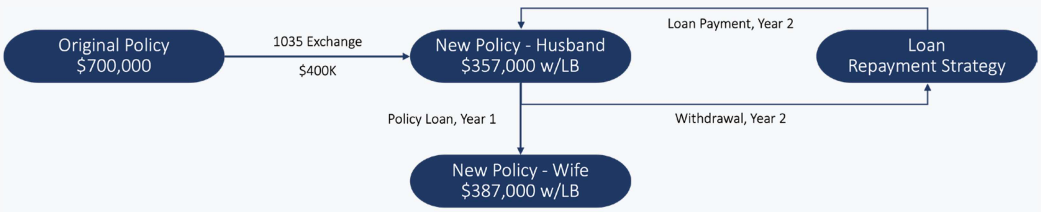
Consider the following fact pattern:

- A 65-year-old couple
- The husband has permanent life insurance with $400K in surrender value
- The wife has no permanent life insurance

The typical solution would involve a 1035 Exchange to a new policy on the husband's life that includes Long-Term Care or Chronic Illness Benefits. The client would then fund a separate Long-Term Care strategy for the wife, paid for out of other assets. Alternatively, they could surrender the existing policy, pay any taxes due, and then fund a policy on both husband and wife.

In this case, however, a more effective solution may be available that begins with a 1035 exchange as discussed above, but rather than using other assets to fund a new policy on the wife, the existing cash surrender value on the new policy is used as the source of funds via a policy loan. Figure 1 shows the flow of funds, including a critical component: The rapid repayment of the policy loan.

Figure 1: Funding Two Policies from a Single Exchange



In this case, the loan repayment comes from the husband's new policy itself. Utilizing the carrier's ability to take a withdrawal, not to exceed cost basis, that is then used to repay the outstanding loan on the policy, effectively eliminates one of the potential downfalls of the strategy: The long-term health of the policy being compromised by a growing loan balance.

If we revisit our objective of minimizing costs and providing maximum benefits, the approach certainly meets the mark. In summary:

Existing Coverage:

- Total Life Coverage: $700K
- Total Living Benefits: $0
- Lives Covered: 1
- Account Value: $400K

Updated Coverage:

- Total Life Coverage: $744K
- Total Living Benefits: $349K
- Lives Covered: 2
- Yr 1 Account Value: $320,631
- Yr 2 Combined Account Value: $291,228
- Additional Outlay: $0

Admittedly, the account values are lower immediately after this transaction is executed. That said, based on current crediting rates, the combined account value exceeds $400K by policy year ten and continues to grow plus the loan balance is zero beginning in year two. In addition, there is no additional out of pocket for the client, zero taxes due, and a significant upgrade to the coverage is achieved by the addition of living benefits. In an environment where most clients are concerned on some level about the economy, finding creative ways to fund planning objectives is critical. This approach is perfectly suited to today's economy and truly does deliver more value than a single life solution without living benefits.