# RMDs and the 21st Century 'Grandparent's Delight'

BY FRANK OWEN, III

A new twist on an old idea may be a good way to turn RMDs into an unexpected legacy for a client's grandchildren.

As Dickens wrote in his classic novel, *A Tale of Two Cities*, "It was the best of times; it was the worst of times…" Of course, he was writing about the economic and political unrest in London and Paris in the late 18th century. I am no literary scholar and this is no political essay, but I think the beginning lines of that book seem appropriate to what today's retirees face — especially the educational retiree. The best of times because they have in most cases a secure pension and Social Security check each month, yet the economic uncertainty still exists.

They hear daily about the looming federal debt, the uncertainty of entitlements, looming inflation, a low interest rate environment and political gridlock in Congress. As uncertain

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as things may be, most of my clients don't have to worry about losing a job or foreclosure on their homes, so life, while it could be better, is still pretty good.

But worry they do, because they know that the future their children and grandchildren face may not be as secure as theirs was 40 or 50 years ago. Politically they may feel helpless in correcting that problem. Financially they have enough to live on, but not an excess of assets to leave as an inheritance. So it is also the worst of times to them.

### Blast from the Past

I entered the financial services profession in 1978. As a young insurance agent I was introduced to the phrase, "grandparent's delight." You may remember it too. Upon the birth of a grandchild, the grandparents bought a life insurance policy on the child that would provide an immediate death benefit, future opportunity to buy more insurance without proving insurability and a buildup of cash values that could be used later in life.

While writing this article I Googled "insurance policy on grandchildren" and it led me to the Gerber Life Grow-Up Plan. Not much has changed in 35 years.

I think the two biggest differences between today and 1978 are the uncertainty of the times and the sophistication of the buyer. Not that these policies were bad, but I think more importantly they did not really allow grandparent to leave a legacy for their grandchildren.

### RMD = Outflow

Now let's look at it from today's perspective and reality. Most advisors who practice in the 403(b) environment have done an excellent job helping their clients accumulate assets for retirement. Despite some of the discussion about fees and markets, most of our clients would say that the most important thing to them was to have a secure financial retirement and someone they could trust to help them sort out all of their options. For the large part, most 403(b) advisors have succeeded in that effort.

Many of my clients have been able to retire with their state pension and Social Security as their primary income sources. The 403(b) assets have become an inflation hedge or cash access for emergencies or opportunities. As a matter of fact, many of my clients would prefer not to take money out but at 70½, they have no choice.

They do have a choice on what they do with those withdrawals, however. Last year we finally realized that more than $1.5 million a year was flowing out of our clients' accounts for required minimum distributions (RMD) and we had no plan to help redirect it.

How about you? Do you have a systematic program to discuss legacy planning ideas with your retiree clients, or does the check just go out and away?

### Focus on RMD Income

Almost all retirees are parents and grandparents. Many of them believe the next generation's retirement will not be as secure. That's a sad statement but a widely shared perception. This means we have the perfect opportunity and obligation to help our retired clients address that concern for their heirs.

Some advisors have already addressed this by focusing on using the RMD income to fund a long-term care contract to make sure that assets are not depleted and are still there to pass on to the next generation. Others have discussed survivorship life to allow parents to spend the inheritance but leave it tax free after their death.

Those are all worthwhile discussions, but I remember years ago a client of mine retired and said his focus would be on the "4Gs" of his life: Grandma, gardening, God and grandkids. His eyes really lit up when he said "grandkids."

Most retirees will say that they are worried about what will happen to their grandchildren, or maybe they are concerned that if left to the children it will get spent. So why not offer a solution? Most grandparents help with the education of their grandchildren; can you imagine the legacy and impact of providing something to a grandchild when they reach retirement?

Many people are worried about how the world will look 50 years from now. Will their children and their families enjoy the same standard of living? Do they worry how they will help resolve that concern since they won't be here 50 years from now?

### Possible Solution

So here's an idea that might be a useful planning tool. Today's life insurance products are much more flexible and innovative than they were 35 years ago, with computers generating

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illustrations in minutes. In 1978 it took weeks to get an illustration. But speed needs to be tempered with letting clients see the advantages, disadvantages and uncertainties that can occur.

Why not have the grandparents purchase a policy on the life of a grandchild? Making sure they comply with all of the issues regarding guideline premium tests. Consider using a universal life product and an income benefit rider. As you know, the devil is always in the details and it's important to stay within those guidelines.

Let's look briefly at an example using a 9-year-old granddaughter. The grandparent funds the policy at $1,000 per year for seven years. In exchange, a death benefit is created for $100,000 on the grandchild. No further payments are made or required beyond that point in time. The death benefit is simply a byproduct of the strategy because we are focusing on income in the future.

The policy is left to accumulate value until the grandchild reaches age 65. Contract performance is unknown and markets are uncertain, but for this example let's assume the S&P averages 5% per year for the next 56 years. At age 65 the accumulated cash value would generate $33,487 annually in guaranteed income through policy loans not currently subject to taxes, for the life to the grandchild. Of course, income payments are based on the insurer's ability to pay.

You can imagine the compounding effect on the internal build-up of value — and you can imagine the skeptics' concerns about not knowing what the future holds. There are a lot of unknowns; and there will always be critics. I can hear them now: Will the grandchild keep the policy that long; will the S&P grow at 5% each year; will the company be in business when they retire; what about tax law changes; and will inflation offset the value of these dollars?

We know this: Assuming a 3% inflation rate each year, the purchasing power of $33,487 is the equivalent of about $6,000 today. Inflation will certainly affect the numbers, but would $6,000 per year help a grandparent today to supplement their lifetime of saving? But even beyond that, the biggest unknown is this question: Will my grandchild's future be as secure as mine?

## Solving Beats Selling

If you have clients receiving an RMD each year that they don't need for their income, why not have this discussion? Maybe instead of leaving a legacy of love for the next 50 years, some will decide to put it in a college savings program to help save for college. Maybe they purchase long-term care coverage or buy a survivorship life policy to pass it on. Maybe they do nothing but thank you for the discussion.

Over the last 35 years I have learned that sharing solutions with my clients is a lot better than selling a product. I've also learned that most 403(b) advisors do a great job helping people accumulate assets. Sometimes we forget they can't take this money with them when they die, and fail to discuss what they want to accomplish with it while they are living. Here is what you don't want them to do: hear about a good idea from someone else and say goodbye to you. b

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