

ANONYMIZED CASE ANATOMY · LIQUIDITY PRESERVATION SERIES

The Builder Who *Wouldn't Sell*

An illustrative premium-finance case for an illiquid \$45M estate

Hypothetical illustration. Not an actual client. Figures are round and illustrative — chosen to show the logic of the structure, not to project or guarantee any outcome.

The Situation

A 58-year-old founder — call him the principal — has built a regional construction and development business over three decades. His advisor has managed the family’s liquid portfolio for years and brought this situation to a premium-finance design desk. The estate is large and almost entirely illiquid:

THE PRINCIPAL’S BALANCE SHEET (HYPOTHETICAL)	ESTIMATED VALUE
Operating business (closely held)	\$28.0M
Commercial & development real estate	\$12.0M
Managed investment portfolio (the advisor’s book)	\$5.0M
Total estimated estate	\$45.0M

The problem is the shape of the estate, not its size. Roughly \$40M of the \$45M is tied up in the business and the real estate — the assets that produce the family’s return. At the principal’s death, the estate is expected to face a meaningful liquidity need: settlement and transfer costs, and the desire to equalize inheritances between the child who works in the business and the two who do not. The family does not want a forced sale of the company to raise cash. They want the business to pass intact.

THE NEED

An estimated need for roughly \$15–20M of liquidity at transfer, against an estate that holds only \$5M in liquid assets. The protection question is settled. The only real question is how to pay for it.

The Two Paths

The principal’s advisor framed the death benefit as a permanent policy of roughly \$18M, owned by an irrevocable trust so the proceeds pass outside the taxable estate. Designed and funded to support that benefit, the policy carries an illustrative premium of about \$650,000 per year for seven years. The family can fund it one of two ways.

Path A — Fund it from the portfolio (the conventional way)

The only liquid sleeve is the \$5M managed portfolio. Paying \$650,000 a year from it would consume roughly 13% of the book in year one and, across seven years of premiums, would effectively drain the entire

liquid portfolio — the very assets the advisor manages. It would also realize gains along the way and leave the family with almost no liquid reserve. The estate would get its protection by liquidating the one part of the balance sheet that was already liquid.

Path B — Finance the premium (liquidity preservation)

Instead, a lender funds the annual premiums. The irrevocable trust is the borrower; the principal makes comparatively small annual gifts to the trust to service the arrangement rather than writing \$650,000 checks from the portfolio. The \$5M portfolio stays invested, under the advisor’s management, compounding. The estate still receives roughly \$18M of death-benefit liquidity through the trust.

WHAT EACH PATH DOES TO THE ESTATE (ILLUSTRATIVE)	RESULT
Liquid portfolio after 7 years of premiums — Path A	≈ depleted
Liquid portfolio after 7 years — Path B	≈ intact, still invested
Realized capital gains to fund premiums — Path A	Yes
Realized capital gains to fund premiums — Path B	Avoided
Death-benefit liquidity delivered to the trust	≈ \$18M (either path)

How the Financed Structure Is Built

This is the case anatomy — the four interdependent parts from Paper 2, made concrete for this principal.

The policy

A permanent policy of roughly \$18M, engineered and funded to build cash value that will serve first as collateral and later as the exit. Designed to conservative crediting assumptions, not headline ones.

The loan

A lender advances the ~\$650,000 annual premiums, interest accruing at a rate tied to a short-term benchmark, reviewed and renewed on a defined cycle. This is what keeps the \$5M portfolio invested rather than spent.

The collateral

The policy’s cash value is the primary collateral. In the early years, before that cash value has accumulated, the lender requires additional outside collateral from the principal — posted from his broader balance sheet,

not the managed portfolio. As cash value builds over the funding period, that outside-collateral requirement is designed to decline and eventually release.

The trust and the exit

An ILIT owns the policy and borrows the premiums, keeping the ~\$18M outside the taxable estate and coordinated with the family's estate counsel on the equalization plan. The exit is defined from day one: the loan is designed to be retired from accumulated policy cash value and, ultimately, the death benefit — so the structure has a known endpoint, not an open-ended balance.

THE ANATOMY IN ONE LINE

A lender funds an \$18M ILIT-owned policy; the principal posts outside collateral early, gifts modestly to service the trust, keeps his \$5M portfolio invested, and the loan is designed to retire from cash value and the death benefit.

Where It Could Come Under Pressure

A defensible case shows the strain points, not just the base case. For this principal, three were modeled honestly before anything was recommended:

- **Rates stay high.** If the benchmark rate rises and holds, the loan costs more to carry and the crossover where outside collateral releases moves further out. The structure was modeled across higher-rate paths so the family could see the cost — and the decision points — in advance.
- **The policy underperforms.** If crediting lags the conservative design assumption, cash value accumulates more slowly and outside collateral stays posted longer. The case was built to absorb that, not to depend on optimistic crediting.
- **A collateral call in a down market.** Outside collateral posted from the broader balance sheet has to be durable enough to withstand a market decline that coincides with a call. The desk confirmed the posted collateral could hold under stress before proceeding.

None of these is a reason to avoid the structure. Each is a reason the case was designed by a desk that modeled the downside and showed the principal the pressure points — which is exactly what makes it defensible in a due-diligence conversation.

The Outcome — for the Client and the Advisor

For the principal: the estate gains roughly \$18M of liquidity at transfer, the business and real estate can pass intact, the inheritances can be equalized, and the family's liquid capital was never sacrificed to buy the protection. No forced sale. No realized gains. No drained reserve.

For the advisor: the \$5M managed portfolio stayed under management and invested, instead of being liquidated to nothing over seven years. The advisor brought the strategy, kept the relationship, stayed at the center of one of the family's largest decisions — and preserved the book. The same client decision that, the conventional way, would have erased the relationship instead reinforced it.

WHAT TO CONTEMPLATE

The protection cost the same either way. What differed was the source of the premium — and whether the principal's liquid capital, and the advisor's entire book, survived the funding of it.

What This Means for Your Practice

If a client comes to mind whose balance sheet looks like this — most of the wealth locked in a business or in real estate, a looming liquidity need, and a liquid sleeve too small to fund coverage without draining it — that is the case to bring. The Goheen 48-hour case design desk will model both paths for your specific client, stress-test the financed structure across rate and collateral scenarios, coordinate with their estate counsel, and return a plain-English analysis you can put in front of them. You keep the relationship and the assets. We do the design.

IMPORTANT DISCLOSURES

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