What happens when bad advice meets up with an unprepared professional advisor ?

By Ted Polci, CLU, TEP

Four members of our staff and I have just completed the task of rescuing a very nice gentleman and his wife from an impending financial disaster. The potential loss to the clients was over $200,000 in tax and penalties, plus hundreds of thousands more in wasted insurance premiums. It has taken over a year and almost 100 hours of work on the file to correct the problem(s).

So, what happened to cause all of this ? An aggressive financial advisor without proper training and focused only on his own interests, oversold the clients and put them into a 10/8 plan that was totally inappropriate for them. The poorly conceived financial plan was a dangerous combination of:

a) Too much life insurance,
b) Incorrect advice on interest deductibility,
c) Hand-written spreadsheets from the advisor instead of company produced,
d) Use of increasing term rates instead of fixed level cost rates inside the Universal Life plan, and
e) Total disregard of the assets, income and stage of life of the clients (near retirement).

The C.A. advising the client at the time was a partner in a major accounting firm. She admitted she didn't understand how the strategy worked, but the advisor was so confident and so forceful, she became convinced she could rely on his instructions and advice.

After the clients changed accountants, we were called in by their new accounting firm to see if we could help them understand what was in place because it didn't look right. We spent some time explaining how 10/8's worked, where they fit and where there were concerns. They shared the client file with us and it became clear to all of us that these clients had been misled and were in a serious predicament.

What did we do ?

- Over the next several months we were able to get them out of the plans without penalty and thanks to the forgiveness of tax offered by Finance for dispositions before Dec. 31, 2013, there will be little or no tax cost – there would have been over $100,000 but for the changes.

- We cancelled four insurance contracts that were unnecessary coverage, saving almost$40,000/year in premiums.

- We changed the plans they are keeping to "level cost of insurance" so that premiums don't become prohibitive in a few short years (and they lose the coverage).

- Then, we had our actuary value four plans being kept; fair market valuations totalled approximately $900,000. We rolled them into the clients' professional corporation; this will provide tax savings of almost $300,000.

- Premiums will now be paid out of after-tax corporate income – not after-tax personal income – which represents additional savings of almost $70,000/year in the professional corporation.

I think we were all fortunate to achieve this outcome. The clients, the former accountant, the new accountant, the financial advisor, even the insurance company were all saved a lot of grief and maybe worse. While we were pleased to have had so much success with the file, we realize that a significant saving came out of the recent legislation; there is nothing like good timing.

But here is what I learned – more clearly than I understood it before; it is absolutely critical that professional advisors understand these strategies at a fundamental level and just as importantly, have and use a reputable, experienced financial advisory firm like ours to vet and research concepts. This problem could have been avoided at the outset if that first accountant had called and said "**Could you have a look at this for me please ? We haven't seen it before and need a second opinion".**

We do that on a regular basis for many advisors and would welcome your call. If it's a telephone conversation or quick visit, there's probably no charge. If it's a major reparation project like this one, there will be a fee, but it will be a tiny fraction of the potential loss or benefit to the client.

From time to time, we visit with tax groups within professional firms to discuss current strategies and answer questions. These are not marketing sessions, they are aimed at information exchange with a view to long term relationships. If you would like us to visit your group, let me know.

If you have a situation where a client is considering a "creative" insurance strategy – or should be – call us and we will help you make sense of it.

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