



# Post-Election — The Cost of Waiting

As a result of the recent election, some clients may feel that there is no urgency for estate planning. We are going to look at two recent cases brought to the Advanced Sales department. Each client had an estate exceeding \$100 million and neither had implemented any gifting or insurance planning. The cost of waiting for each client was significant and can be used to motivate others to take action.

## Case Study #1

The first is a client who postponed implementing solutions we presented in 2019. The client's estate at that time was worth \$40,000,000, and today it totals over \$300,000,000. *This estate grew 125% annually for the past five years.*

This client now has a problem that we can't completely solve with gifting or with insurance. With just under \$28,000,000 available to gift in 2025, the estate can only move a mere 8.9% of the total value to an estate tax-free environment. The client can leverage those dollars and purchase life insurance totaling about \$200 million, but that will cover only 16% of the projected \$1.2 billion estate tax liability at life expectancy.

In 2019, the lifetime exemption was \$11,400,000. The client could have moved \$22,800,000 out of their estate, which would have grown by 125% annually for five years and would now total \$232,950,000.

Instead, the \$232,950,000 left in the estate will be taxed at 40%, which is a staggering \$93,180,000 due in estate taxes today. Failing to implement sooner has cost them \$93 million today, and over half a billion at life expectancy.

***This could have been completely avoided had the client gifted to a trust before the tremendous growth in value occurred.***

In fairness, maybe in 2019 the client felt that gifting \$22,800,000 was too much to give away. Whether it was a control issue or a fear of running out of money, something prevented them from acting. Had they gifted even just \$10 million or some other smaller amount, they would have protected the future growth on that amount from estate tax. There are so many strategies that successfully move future growth out of the taxable estate but also give the clients a retained interest or access to income should they need it. We frequently design SLATs, GRATS, sales to grantor trusts, loans to irrevocable trusts and qualified personal residence trusts which help clients feel comfortable that they aren't gifting their financial security away.

## Case Study #2

The second case is a couple who has recently signed a letter of intent for an idea they have patented. They will have a liquidity event in 2025 of \$200 million. Had they gifted the entity holding the patent a year ago, the gift value would have been only \$100,000. They could have captured \$200 million of growth outside of their estate. The heartbreak of this case is that the asset now worth \$200 million is not needed to provide any income for lifestyle, so there was no reason for them to not gift it other than they did not seek advice until it was too late.

Now that the LOI is signed, their estate's value far exceeds the \$28 million they can gift. They are a new client to our member, and we will help them with insurance for leverage, a valuation focused on maximizing discounts and other estate freeze, squeeze and burn techniques. It's a great case for our member, but with earlier planning it would still have been a great case providing an even better result to the client.

How can we quantify the cost of waiting and the negative impact that leaving a rapidly growing asset inside a client's taxable estate can have? Let's look at \$10 million in value today growing at different growth rates over 5-, 10- and 15-year periods to determine what the future estate tax cost will be.

Annual Growth Rate	Value in 5 Years	Value in 10 Years	Value in 15 Years	
5%	\$10,500,000 (\$4,200,000)	\$16,288,946 (\$6,515,578)	\$20,789,282 (\$8,315,713)	40% Estate Tax
10%	\$16,105,100 (\$6,442,040)	\$25,937,425 (\$10,374,970)	\$42,042,525 (\$16,817,010)	40% Estate Tax
20%	\$24,883,200 (\$9,953,280)	\$61,917,364 (\$24,766,946)	\$154,070,216 (\$61,628,086)	40% Estate Tax
30%	\$37,129,300 (\$14,851,720)	\$137,858,492 (\$55,143,397)	\$511,858,930 (\$204,743,572)	40% Estate Tax
40%	\$53,782,400 (\$21,512,960)	\$289,254,655 (\$115,701,862)	\$1,555,680,956 (\$622,272,382)	40% Estate Tax
50%	\$75,937,500 (\$30,375,000)	\$576,650,391 (\$230,660,156)	\$4,378,938,904 (\$1,751,575,562)	40% Estate Tax

Even at a modest 5% growth rate assumption, the estate tax cost in 15 years is over \$8.3 million. For a client who will see a 200% return in five years on a business, the estate tax cost is \$21 million.

***Capturing growth outside the estate is an effective estate planning technique clients have at their disposal. But it requires action before the growth occurs.***

Your clients may choose to use the new administration as a reason to delay planning. Remind your clients that administrations and congressional control change often, and no law will be permanent over the course of a client's life. Share that the growth of an asset inside the estate is harder to remove than an asset before it grows.

You and your clients can not control what tax rates and exemptions are or will be. But you can control capturing growth outside the estate by acting on the planning techniques available today and using insurance to help offset the tax exposure of the assets left inside the estate. Planning is never regretted but taking no action until the problem is so large it can't be completely fixed is.

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