



# Hedging Time

## *A derivatives approach to mortality risk in private wealth planning*

By Frank Hirsch

A long time ago, in what feels like another lifetime, I traded derivatives. On my first day at the Chicago Mercantile Exchange, I was taught a simple but durable lesson: option hedges are just insurance contracts. Options equals insurance, and insurance equals a hedging tool.

My approach to advanced planning is shaped by my derivatives background: proper hedges protect against unfavorable outcomes when timing matters most. I bring that lens to ultra-affluent families, where the key risk is quite often not market direction, but being forced into major decisions too early and before a longterm plan has time to materialize.

This paper makes a practical point: for complex balance sheets, plans often fail because they run out of time. Investment, business, and estate strategies need time to work, and can fail when shocks – especially death – compress decisions into a short window. Properly structured life insurance can hedge mortality risk by delivering certainty via non-correlated liquidity thereby protecting the portfolio and other long-duration structures.

### **Executive Summary**

- Death is certain, but the timing is not. When death occurs, the estate faces a statutory nine-month window to handle taxes and administration.
- An unexpected death turns long-duration strategies into short-duration decisions. Raising cash can mean forced sales, rushed borrowing, or governance conflict at the worst moment.
- Properly structured life insurance can hedge timing risk by creating contract-defined, non-correlated liquidity at death – funding taxes, expenses, and settlement without liquidating long-duration assets.
- Execution ultimately determines the success of the hedge. Indicators of this success include right sized coverage in the post-death stress window, well-structured ownership and governance so proceeds flow quickly as well as managed in force performance, so the backstop holds.



## 1. The Planning Time Horizon

The planning time horizon is the time a strategy needs to achieve the desired result. The risk is that constraints like death, market dislocations, liquidity deadlines, business inflection points, or governance events force key decisions earlier than expected. At those times, the family's true exposure is not market direction. It is whether an irreversible decision must be made before the plan matures.

This is a classic hedging scenario: risk is defined not only by what you own, but by when you may have to act. Two similar portfolios can behave very differently if their decision points arrive on different timelines.

Clients believe that there is always more time to work on the business, finish documents, make smart investments, and build family governance structures. Sometimes there is, but at some point there isn't.

At WealthPoint, we help clients quantify this risk and help them craft the appropriate solution for their family group.

### *Example*

A founder is 58 and finally has a workable ten-year plan. Over the next decade he wants to diversify a concentrated business position, refinance debt on better terms, and transition control to the next generation while the business is strong. Then he dies unexpectedly in year two. The ten-year plan turns into a months long scramble. Executors are inventorying assets, clarifying who has authority, keeping leadership stable, and raising cash for taxes, administration costs, and family support. Without a pre-funded liquidity backstop, the choices are limited. The family sells an equity stake quickly, borrows short term money with tight covenants, or liquidates marketable assets during a drawdown. The cost is not only higher expenses, but also that the balance sheet and governance outcome get rewritten under deadline pressure.

## 2. How Time Compression Breaks Sophisticated Plans

Sophisticated plans inherently require the passage of time. Markets require time for compounding and recovery. Businesses need time to execute strategy and reach favorable recapitalization or exit windows. Transfer

structures need time to administer, perform, and appreciate before reality matches the design.

Many ultra-affluent families can absorb drawdowns, taxes, and capital calls until forced selling breaks this math. Decisions made during an unwanted timetable often confront taxes, capital calls, refinancing windows, collateral demands, and governance or litigation events.

A stress point such as the death of the patriarch or the matriarch of the family can trigger liquidation and governance decisions before the plan is ready. In that moment, "we can always sell" may be true in theory, but in practice it can mean selling the wrong assets at the wrong time, for reasons the family later regrets.

Two predictable dynamics show up in a compressed timeline, especially when leadership is lost and decision rights shift. First, selling becomes politically and emotionally charged, so delay is tempting. Second, process uncertainty, including who decides, how fast and under what constraints, creates unclear potential consequences and outcomes. Balance-sheet liquidity is often overestimated, while the value of non-correlated liquidity certainty only becomes obvious when the plan is tested.

As part of the client's advisor team, we make certain a key question is addressed. If a client dies during a dislocation of markets or lenders, or tax burdens rise or governance concerns are not resolved, what source of cash is still dependable?

### *Example*

On paper the family looks extremely wealthy. In practice most of the net worth is locked up: private funds with gates, real estate partnerships with transfer limits, and operating entities where cash is tied up in working capital. Then someone dies, and the estate still has immediate bills: taxes, attorneys, accountants, debt service, capital calls, and basic liquidity while control is being sorted out. If there is no defined cash source, "we'll figure it out" becomes forced behavior. The family sells secondary interests at steep discounts, asks for GP exceptions that often get denied, or refinances under time pressure. Long duration assets become emergency liquidity at the worst possible price, and the loss is often permanent.



### 3. Life Insurance as the Duration Hedge

As discussed, planning fails when time compresses and families are forced into a sale or a governance fight. To hedge that accelerated timescale, life insurance can convert that uncertain, decision-driven liquidity event into contractual proceeds that arrive on schedule during the post-death administration window.

Wealth needs time to compound through cycles, businesses need time to execute and reach favorable recapitalization or exit windows, and estate strategies need time to season. Planning for liquidity needs during the “stress window,” often characterized by the death of the family decision maker, can keep the objectives intact by covering taxes, capital calls, equalization, or debt paydown.

A policy’s economics typically “front-load” value from a leverage perspective. The rate of return from a level, lifetime death benefit is highest early and declines over time. This pairs well with the purpose of a time hedge – early on, the plan is most exposed to a bad sequence of returns, an untimely death, or a liquidity deadline that would otherwise force a sale.

Over time, the hedge shifts from bridge to backstop. From an actuarial perspective, tax advantaged traditional life insurance will likely not be the family’s best investment given enough time. And that is the point. While an early, unexpected death is tragic for the family, the hedge will provide an infusion of liquidity that will complete or largely complete the family’s financial objectives. If the client lives well past life expectancy, the tax-free proceeds will still be accretive to the estate relative to the alternatives the family would otherwise use to self-insure. In other words, the hedge will have been successful.

### 4. Tax Treatment and Hedge Efficiency

We cannot control time, but we can hedge the risk of time, and the tax code has long encouraged that hedge by subsidizing its cost. Death benefits are generally income tax-free (IRC §101(a)), and rules under IRC §§72(e), 7702, and 7702A support tax-efficient balance sheet management during life.

Moreover, if owned by an irrevocable trust, life insurance provides a step-up-in-basis equivalence for the death benefit proceeds. Gains over investable dollars (premiums) that would otherwise remain taxable are converted into an income tax-free death benefit. Other trust assets retain the grantor’s basis.

#### *Example*

A client considered holding \$30 million–\$40 million in a taxable cash/bond sleeve “just in case” death occurs. This allocation created a significant opportunity cost for the family’s long-duration portfolio. Instead, we reviewed the “math” with the family’s accountant, and the client ultimately chose to hedge most of the liquidity risk with non-correlated life insurance. The proceeds were sized to the projected estate’s stress-window needs (taxes, administration expenses, debt paydown, equalization, and/or capital calls), allowing the rest of the balance sheet to stay invested and reducing the likelihood of forced or distressed sales.

### 5. Implementation: Sizing, Governance and In-force Management

Implementation determines whether the hedge against time works when you need it. Good design clarifies who controls decisions, where proceeds land, how quickly they can be deployed, and how premiums will be funded.

As advisors, we help our clients define the stress window and the liquidity needed to avoid forced sales. We then size coverage to that need and help design governance, so decision rights do not cause delay. Ultimately, we must align the premium commitment, funding pattern, and decision hierarchy so the hedge stays in force through market and family stress.

Once implemented, WealthPoint monitors the insurance hedge like a long-dated position. As part of our in-force management practice, we will confirm funding versus plan, track carrier strength, and review key sustainability drivers over time (crediting/dividend performance, charges, loan balance, lapse risk). Notification and discussion triggers are set per policy objective (premium changes, benefit adjustments, laddering, redesign) so the hedge does not degrade.



## Conclusion

Families build plans that assume time for investments to compound, businesses to mature, and transfer strategies to work. The primary threat to those plans is not market risk, but the unexpected and often sudden loss of time.

Life insurance is not the plan, but instead, it is the hedge that protects the plan by preventing long-duration strategies from being forced into short-duration execution. Without the contractual certainty of liquidity, even the best designed plans are often rewritten under stress – a time when decision quality is lowest and outcomes are permanently impaired.

## Biography



Frank Hirsch is a Partner at WealthPoint, a life insurance advisory firm focused on serving the planning needs of families with complex balance sheets. WealthPoint is headquartered in Arizona with offices in Phoenix, Los Angeles, Denver, and Chicago. Prior to WealthPoint, Frank traded currency options, equity options and ETF options over his sixteen year derivatives career. Before trading, Frank was an associate with Swanson, Martin, and Bell. He graduated from the University of Illinois College of Law and received his B.A. in history from the University of Michigan.

### For Further Information

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