Premium Financing

Premium Financing is a concept that combines a need for life insurance, such as estate or business planning, with financing used to pay the insurance premiums. Repayment of the financing is made from the death benefits upon the death of the insured. Some of these arrangements may utilize a single lump sum premium, while others may have multiple premium payments. Interest payments on the loan may be paid "out of pocket" periodically, or left to accrue and be paid out of the death benefits.

When utilizing the premium financing concept, it is common, though not necessary, to request death benefit Option-C. Death Benefit Option-C provides a death benefit that is equal to the basic insurance amount plus the premium accumulated (with or without interest), less accumulated withdrawals upon the death of the insured.

The target market for premium-financed contracts is high net worth individuals, aged 60 or older, or various closely held corporations. In estate planning, these high net worth individuals prefer to borrow funds to pay life insurance premiums instead of liquidating personal assets. They generally believe that the investment performance of their retained capital (the personal assets not liquidated to pay premiums) will be better than the interest rates charged on their loans to pay life insurance premiums. In other words, they engage in arbitrage where they expect to earn a higher interest rate of return from their investments than the interest expense they will incur from the financing of premiums. In order for this to take place, the lender must be willing to lend large amounts for long periods, at favorable interest rates, with the repayment of the principle (and perhaps the interest) deferred until the death of the insured.

As with any financial transaction, there are potential economic risks to the borrower and purchaser. If loan interest rates rise, the economics of the transaction may no longer make sense to the client. Since clients may be asked to periodically re-qualify for the loan, changes in their economic status may make it necessary to find alternative premium funding methods. More premiums than initially illustrated may be needed to keep the policy from lapsing. Any of these risks could cause the client to exit the concept and potentially lose personal collateral and/or have tax consequences as a result. Additionally, unanticipated changes in tax law could have a negative impact on the value of the premium financing arrangement.

**{Name
Phone Number
E-mail Address
Website Address}**

Underwriting Considerations:

- The client must be a high net worth (minimum $10,000,000 net worth), age 60 or higher.
- Only specific products may be used. (Contact Advanced Marketing for details.)
- Legal counsel must represent the client.
- The agent and the client must work directly with an independent concept sponsor. This may include a bank that sponsors a premium financing concept or another organization that provides the concept in cooperation with a lending organization.
- The client must sign a disclosure letter that among other things acknowledges the company's role in the transaction to being a product provider only. The client must discuss and sign this disclosure letter with legal counsel prior to delivery of the policy.

After reading the Rx for success on Premium Financing, please feel free to contact the Advanced Marketing team at 1-800-286-7745 for an informal quote.

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