

# Private vs. Third-Party Premium Financing – Two Solutions!

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# What is Premium Finance?

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- Method of purchasing life insurance by paying the required premiums with borrowed funds
- An individual takes out a loan from a third party lender to make the premium payments on the life insurance policy
- The life insurance company providing coverage is not party to the loan arrangement\*
- Use of "OPM" – *"Other People's Money"*

*\*The premium financing arrangement must be disclosed to the carrier at the time of application*

# Why?

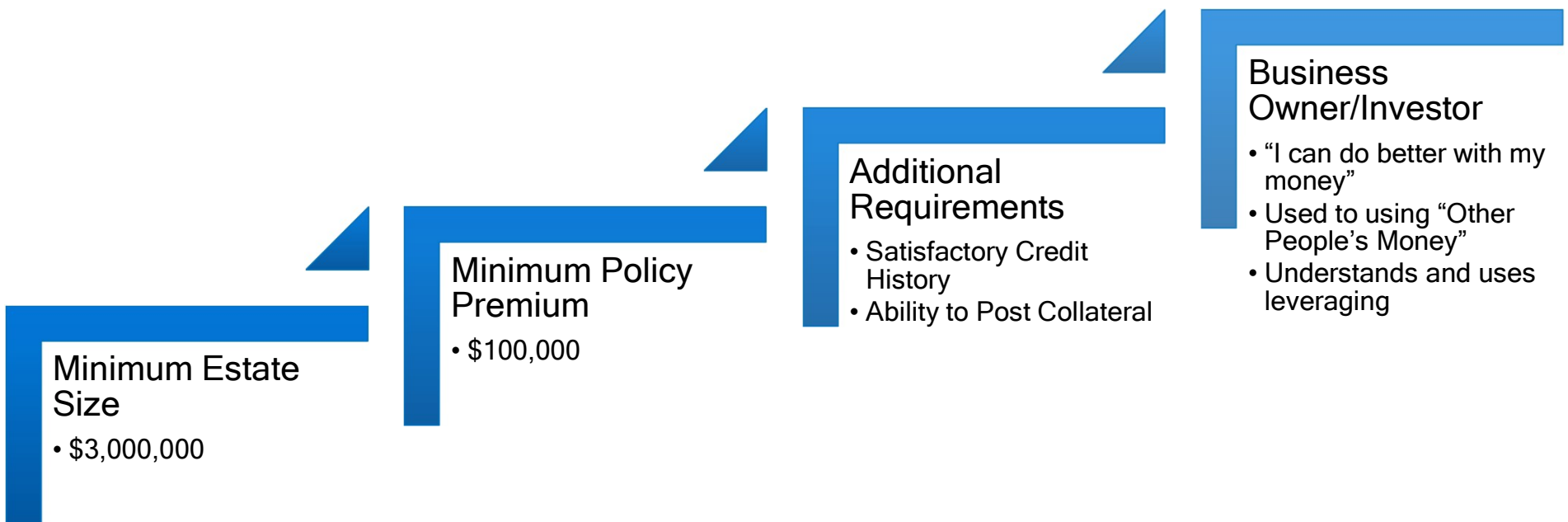
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- Need for substantial life insurance coverage, but a reluctance or inability to liquidate capital to fund the policy
- Capital is tied up in illiquid assets such as a family business, or the assets that would have been liquidated have a greater rate of return versus the cost of borrowing funds
- Limited gifting ability for estate planning

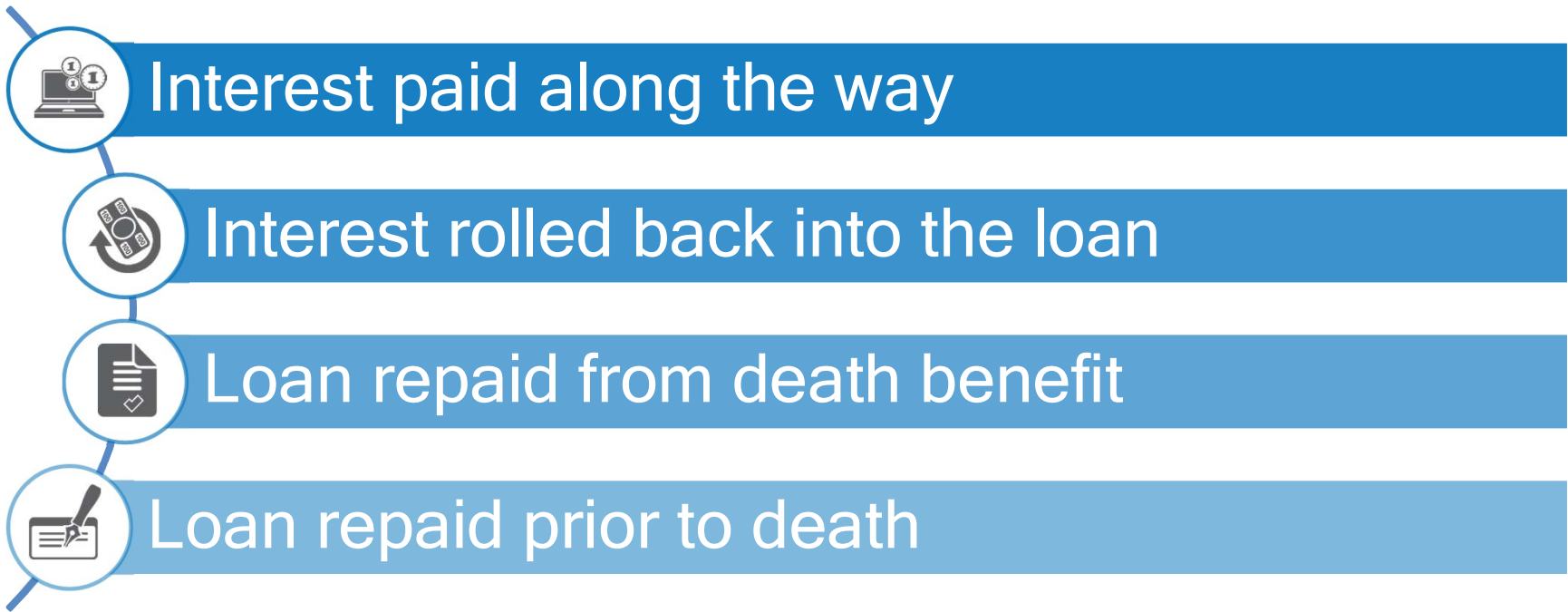
# Who?

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# How?

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# Case Study

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- Male, Age 44, Preferred NS
  - Underwriting issues
- \$20,000,000 Death Benefit Need
- All-pay premium of \$130,000 to keep coverage in force for life
  - Client was presented with both third-party and private financing designs as alternatives



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# Case Study – Premium Financing

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- \$20,000,000 Death Benefit (Increasing)
  - \$825,000 premium paid for 10 years
  - Initial loan interest rate of 2.85%
  - Minimal collateral
  - Client's outlay is \$130,000 per year for 15 years
    - Loan principal paid down in early years
    - Loan interest accrued in later years
  - Loan repaid in year 16
    - Approximately \$23 million of net DB and \$4 million of net cash value

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# Case Study – Premium Financing

PROJECTED LOAN SCENARIO FOR FINANCED POLICY								PROJECTED LIFE POLICY DETAILS				
Year	Prem Borrowed	Loan Int Rate	Interest Due	Annual Gift	Add'l Paid	Interest Accrued	End of Year Loan	Premium/Cash Flow	Cash Surr Value	Death Benefit	Net Death Benefit	Collateral Needed
1	825,000	2.85%	23,513	(130,000)	106,488	0	718,513	825,000	146,202	21,224,302	20,505,790	(586,931)
2	825,000	2.85%	43,990	(130,000)	86,010	0	1,457,503	825,000	927,571	21,997,676	20,540,173	(622,689)
3	825,000	3.13%	71,442	(130,000)	58,558	0	2,223,945	825,000	1,762,095	22,824,000	20,600,055	(638,059)
4	825,000	3.52%	107,323	(130,000)	22,677	0	3,026,268	825,000	2,654,077	23,707,577	20,681,309	(637,598)
5	825,000	3.72%	143,267	(130,000)	0	13,267	3,864,535	825,000	3,607,482	24,652,372	20,787,837	(617,801)
6	825,000	3.89%	182,423	(130,000)	0	52,423	4,741,958	825,000	4,626,758	25,662,628	20,920,670	(577,876)
7	825,000	3.98%	221,565	(130,000)	0	91,565	5,658,523	825,000	5,716,151	26,742,796	21,084,273	(513,987)
8	825,000	4.02%	260,638	(130,000)	0	130,638	6,614,160	825,000	6,958,310	27,897,215	21,283,055	(351,681)
9	825,000	4.06%	302,030	(130,000)	0	172,030	7,611,190	825,000	8,279,734	29,130,694	21,519,504	(159,430)
10	825,000	4.11%	346,727	(130,000)	0	216,727	8,652,918	825,000	9,720,419	30,483,639	21,830,721	0
11	0	4.16%	359,961	(130,000)	0	229,961	8,882,879	0	10,406,226	31,081,706	22,198,827	0
12	0	4.17%	370,416	(130,000)	0	240,416	9,123,295	0	11,131,227	31,718,967	22,595,672	0
13	0	4.17%	380,441	(130,000)	0	250,441	9,373,737	0	11,897,715	32,397,715	23,023,978	0
14	0	4.18%	391,822	(130,000)	0	261,822	9,635,559	0	12,620,402	33,120,402	23,484,843	0
15	0	4.23%	407,584	(130,000)	0	277,584	9,635,559	0	13,390,025	33,890,025	24,254,466	0
16	(9,635,559)	4.23%	0	0	0	0	0	(9,635,559)	4,084,382	23,084,382	23,084,382	0

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# Private Financing

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- Client (or business) essentially becomes the lender
- Policy owned inside of an ILIT
- Client/business makes loans to the ILIT for premium
  - Loans subject to current Applicable Federal Rates (AFRs)
    - Short-term, mid-term, and long-term
- Estate planning flexibility

# Comparison

	Third-Party Financing	Private Financing
Can Loan Be Called?	Yes	No
Interest Rate Fluctuation?	Dependent on Lender	Subject to Current AFR
Collateral Required?	Yes	No
Loan Payback?	Received By Third-Party Lender	Comes Back into Estate



# QUESTIONS?