

*Premium Financing*



**Getting the most from premium financing for fixed and indexed universal life**


# **Important Notes**

Neither AIG Life Brokerage, nor its employees or representatives, give legal, accounting or tax advice.

The information in this presentation is meant for educational purposes only. You should always have your clients consult an attorney or tax advisor about the tax consequences of any life insurance or investment program.

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# What We'll Cover:

 Key point: retained capital

 The arrangement

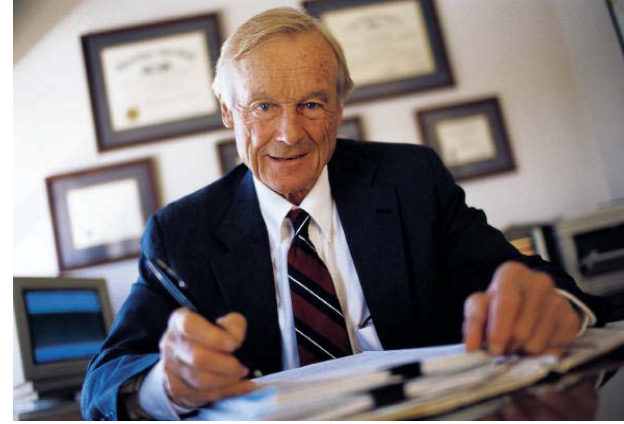
 The life products

 Credit verification

 Gifting & other issues

 Sample case


## *The Problem:*



🕒 “It doesn’t make the best financial sense to pay premiums to a life insurance company in light of the fact that I make \_\_\_% on my money in my own business, and/or my money is tied up in illiquid, highly profitable investments”

# The Solution

## Retain your capital

 **Borrow premiums  
from a third party lender  
so that the money is  
retained in your business  
or investment portfolio**

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**Benefits  
to  
client:**

 **Reduce client's cash outlay in early years**

 **Generally, interest only is paid**

 **Life insurance cash value serves as portion of the collateral\***

 **Attractive interest rate on borrowed funds**

\*Additional assets usually required from the borrower as collateral.  **Client leverages retained capital**

# Benefits to client:

Loan may be paid off at any time  
without pre-payment penalty or  
*paid upon the death of the  
insured*

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Important!

👉 Premium financing *does not* reduce the cost of buying life insurance, but:

👉 It *does* reduce the payor's cash outlay in the *early* years so that he/she may retain those funds for investment



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## The lender is A.I. Credit Corporation

- Premium finance is their *only* business
- More than 30 years of experience, over
- \$2 billion of loan portfolio
- No hidden fees, points, or pre-payment penalties in the loans
- Loans are typically for life of the insured

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# *Loan Guidelines*

- 🕒 Net worth greater than \$5 million
- 🕒 Financed premium greater than \$100,000
- 🕒 Assets are available for collateral or letter of credit is obtainable
- 🕒 Client and financial advisors understand and are comfortable with financial leverage
- 🕒 Policy owner may be a trust, business, or individual

# Separate Transactions

- Policy issue and loan qualification are viewed as separate transactions**
- Insured may qualify for insurance while the loan may be denied based upon credit worthiness**

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## **The Process:**

- Producer presents product and premium financing illustrations to the client
- Life application is completed and processed w/normal underwriting
- Once acceptable underwriting offer is made, producer assists client in completing the loan application package

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**The loan application package normally consists of the Lending Transmittal Form and life insurance financing credit application along with 3 years of corporate financial statements (if a corporation), and a copy of the articles of incorporation.**

**If a trust or individual, then a financial statement and tax returns for three years are submitted. These items are sent to the Advanced Marketing Dept. at AIG Life Brokerage in Milwaukee**

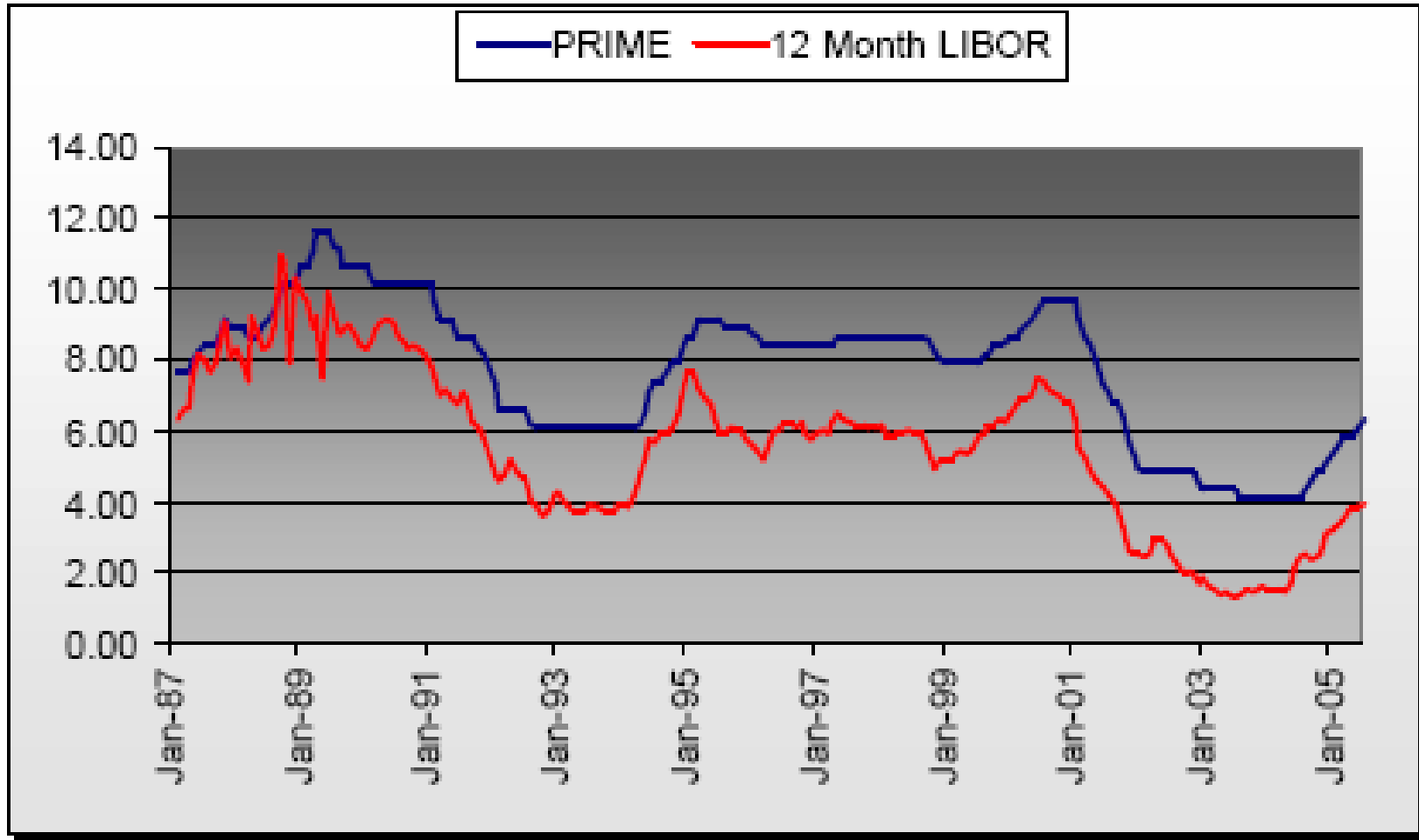
# **The importance of loan interest and earnings assumptions on the retained capital**

Loan interest charged by the lender is based upon LIBOR\* plus a spread between 175 and 275 basis points

\*1 year London Interbank offered rate

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# Interest Rate History



\*Please note that the slide shows historical data and is not intended to predict or guarantee a future interest rate. Past history is not an indicator of future rates.

# AIG American General's Life Insurance

Let's look at the life insurance products offered by AIG Life Brokerage and used most commonly for premium financing cases....



# Individual Life Products

Issued by American General Life

-ContinUL *Extend*

-Elite UL 2003

-Elite UL **G** 2003

-Elite Index UL 2004

# **Survivorship Life Products**

- **Elite Survivor**

- **Elite Survivor G**

- **Platinum Survivor Ultra 500**

## Sample Case

- Bill
- Age 65
- Male
- Preferred non tobacco class
- Life insurance need is a \$5 million guaranteed death benefit.

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# Bill, age 65



-Life insurance need established at \$5,000,000\*

-Annual premium of \$101,247 for non-financed premium

-Annual premium of \$180,005 for financed premium;  
guaranteed, w/return of premium death benefit

\*Male 65, PNT, ContinULExtend, (Policy form # 05337)

# Bill, age 65

## Year ten cumulative results

Cumulative loan	Cum. Interest paid	Invested Difference*
\$1,800,053	\$792,023	\$582,005

-Estimated net rate of return on retained capital @ 10%

-Loan interest rate assumed: 8%

# **How is the loan paid off?**

- Individual circumstances determine whether the loan is paid off before the death of the insured**
- The lender may be repaid from the life insurance death benefit**
- AI Credit “Loan for Life” of insured**

# Credit verification

- Lenders usually prefer certain types of collateral over others
- Desirable collateral:
  - cash, CDs, government bonds, traded securities, other insurance cash values, letters of credit

# Credit verification

**-Collateral requirements may be reduced over time as the policy cash value grows. It may ultimately serve as sufficient by itself.**



# **Personal Guarantee of the loan**

**-The trust grantor or insured normally provides a personal guarantee of the loan**

# **Loan revaluation**

**-The lender may have right to cancel the loan at any time if the trust or guarantor has an adverse financial change and collateral is not available for the loan**

# **To finance or not to finance?**

## **Consider...**

- Client investment earning rate**
- Liquidity of assets to pay insurance premiums**
- Client longevity**
- Other personal factors**

**Should you present premium financing for *most* large cases\*?**

What is the **worst** that can happen??

Client does not finance and pays the premium!!

\*illustrated cases should meet premium financing qualifications

# **Gifting Issues**

**Does a grantor's personal  
loan guarantee to the trust  
constitute a gift?**

# **Giftting Issues**

**-It is not clear.**

**Private Letter Ruling 9113009 ruled that a parent who guaranteed loans to his children made gift to his children. However, the IRS later withdrew the ruling in PLR 9409018.**

## ***AI Credit Programs***

- Fixed period loan**
- Capped loan interest outlay**
- Interest roll-up (up to 10 years)**
- Premium loans under \$100,000**

## What Premium Financing Is Not

- **It is not a program to find premium for clients who do not have the assets to pay premiums**
- **It is not a method of paying premiums for clients who do not have the financials to qualify for a bank loan**
- **It is not a method of selling life insurance to a client who would not otherwise have the need for insurance**



# **Additional info?**

**AIG Life Brokerage**

**800-659-5920**

- |                         |              |
|-------------------------|--------------|
| <b>-Bill Wells,</b>     | <b>#5834</b> |
| <b>-Karen Schubeck,</b> | <b>#5792</b> |
| <b>-Justin Gorelik,</b> | <b>#5866</b> |
| <b>-Judy Wessel</b>     | <b>#5864</b> |

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*Thank you!*

*Capital Maximization Strategy*

**Premium financing for fixed and indexed universal life**