

Premium Financing **ESTATE PLANNING**

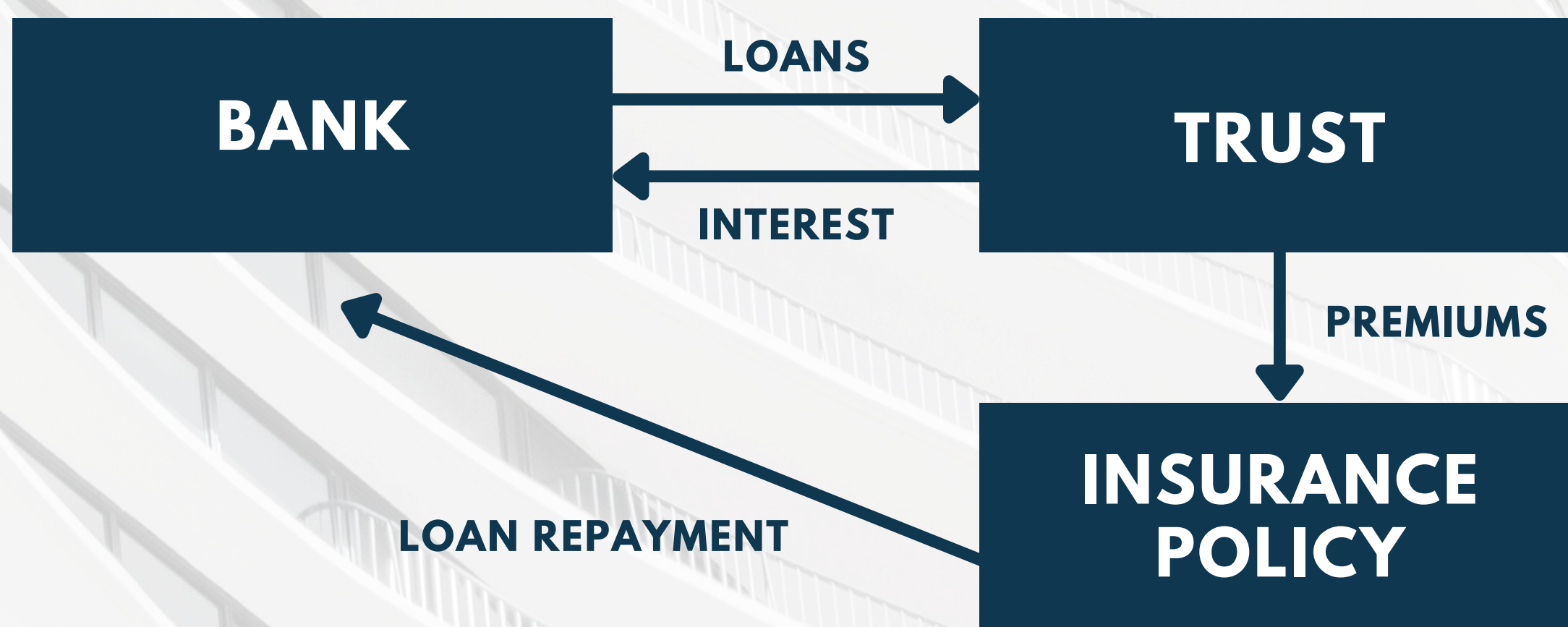
A CAPITAL-EFFICIENT APPROACH

Once it is determined that life insurance is appropriate for a client, given their estate planning and wealth transfer objectives, the next decision is how to pay the premiums most efficiently.

Although it is common for clients to simply gift cash to the trust each year to pay premiums, there are circumstances when this is not the best solution for the client. When gifting premiums to the trust is not an option, or when the client has a high opportunity cost of capital, bank financing may be the most efficient method of funding the insurance.

HOW PREMIUM FINANCING WORKS

1. Client has or creates an Irrevocable Life Insurance Trust (ILIT), which will own the policy.
2. ILIT enters a loan agreement with a Bank to borrow money to pay insurance premiums (3-5 year term).
3. Client or ILIT posts assets as collateral to secure the bank loan, if the loan is greater than cash value.
4. ILIT will pay or capitalize annual interest due on the loan.
5. Bank is typically repaid from the death benefit or cash value of the policy.



PREMIUM FINANCING WORKS WELL FOR CLIENTS WHO:

- *Need life insurance to pay estate taxes or accomplish wealth transfer goals*
- *Have used all their lifetime exemption or are planning to use it to gift other assets to trust*
- *Are financially sophisticated and have the appropriate risk tolerance for financing*
- *Earn a return on their assets significantly higher than the cost of debt*
- *Can post adequate collateral to the bank (cash, marketable securities, letters of credit)*

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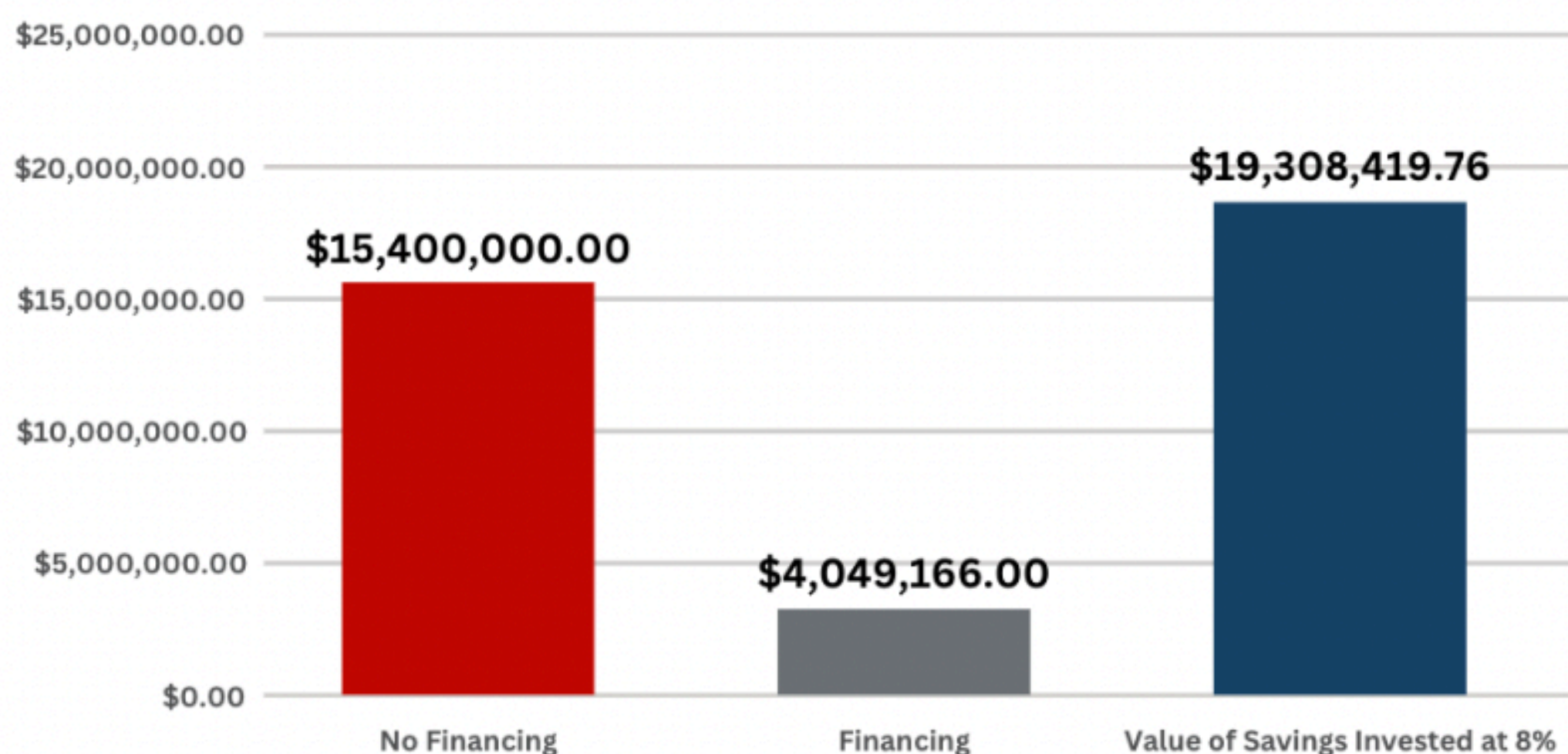
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CASE STUDY: REAL ESTATE FAMILY

Anisha and Raj are a married couple living in NJ, who have built a large portfolio of real estate valued at over \$200,000,000. The couple has engaged in extensive estate planning, including gifting and selling interests in real estate partnerships to trust for the benefit of their two adult daughters. This planning notwithstanding, the couple has a taxable estate of over \$100,000,000. The family does not have enough liquid assets to pay estate taxes and does not want to sell real estate assets at unknown future times or prices, potentially at steep discounts to market value.

Instead, the couple decided to purchase a \$30,000,000 life insurance policy on Anisha. Additionally, the PH Robb team identified an actuarial pricing anomaly, which allowed the client to defer much of the premium payments until close to Anisha's life expectancy. This, in combination with a premium finance loan from Northern Trust, allowed the client to dramatically reduce the cash expense of funding the life insurance. Financing is projected to **save the client over \$10,000,000 in cash expense.**

Cash Cost to Purchase \$30M of Individual Coverage



WHAT DETERMINES THE BENEFITS?

The benefits of premium financing are a function of many factors, including:

- *Expected return on other assets (business interests, real estate, public and private investments, etc.)*
- *Cost of debt (current and projected loan interest rates)*
- *Amount of lifetime gifting available*
- *Annual review and active management of financing arrangement*

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