



Premium Financing Strategies

by

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Premium financing has been around a long time, but the current low interest rates created a favorable lending environment which, coupled with investment grade life insurance, has resulted in a surge of sales activity.

InsMark's new Premium Financing System used in conjunction with InsMark's Wealthy and Wise[®] provides new capacity for illustrating the arbitrage* opportunities present in lender financed life insurance owned by an irrevocable trust, a business, or an individual.

**Arbitrage in this case can be defined as the attempt to profit by exploiting differences between the interest rate charged for premiums funded by loans and the credited interest rate of the life policy securing the loan.*

Policy Owned by an Irrevocable Life Insurance Trust

Premiums

InsMark's Premium Financing System can illustrate premiums:

1. Fully paid by loans from a third-party lender (any policy owner);
2. Trust-owned policy: Part paid by gifts and part by loans from a third-party lender;
3. Business- or individual-owned policy: Part paid by policy owner and part by loans from a third-party lender.

With tight credit markets, an option for other than loans for interim periods can be a valuable alternative.

Loan Interest

Loan interest can be illustrated as follows:

1. Accrued (added to the loan);
2. Accrued for a designated number of years, then paid (or vice versa);
3. Trust-owned policy: Part paid by gifts with the balance accrued -- or the balance accrued for a designated number of years, then paid (or vice versa);
4. Business- or individual-owned policy: Part paid by policy owner with the balance accrued -- or the balance accrued for a designated number of years, then paid (or vice versa).

Case Study #1a

Insureds: James and Whitney Caldwell (ages 65 & 60)*

Policy Owner and Beneficiary: Caldwell Family Trust**

Type of Policy: Indexed Survivor Universal Life

Face Amount: \$10 million increasing death benefit

Premiums: \$285,000 a year for 10 years

Funding: Bank loans

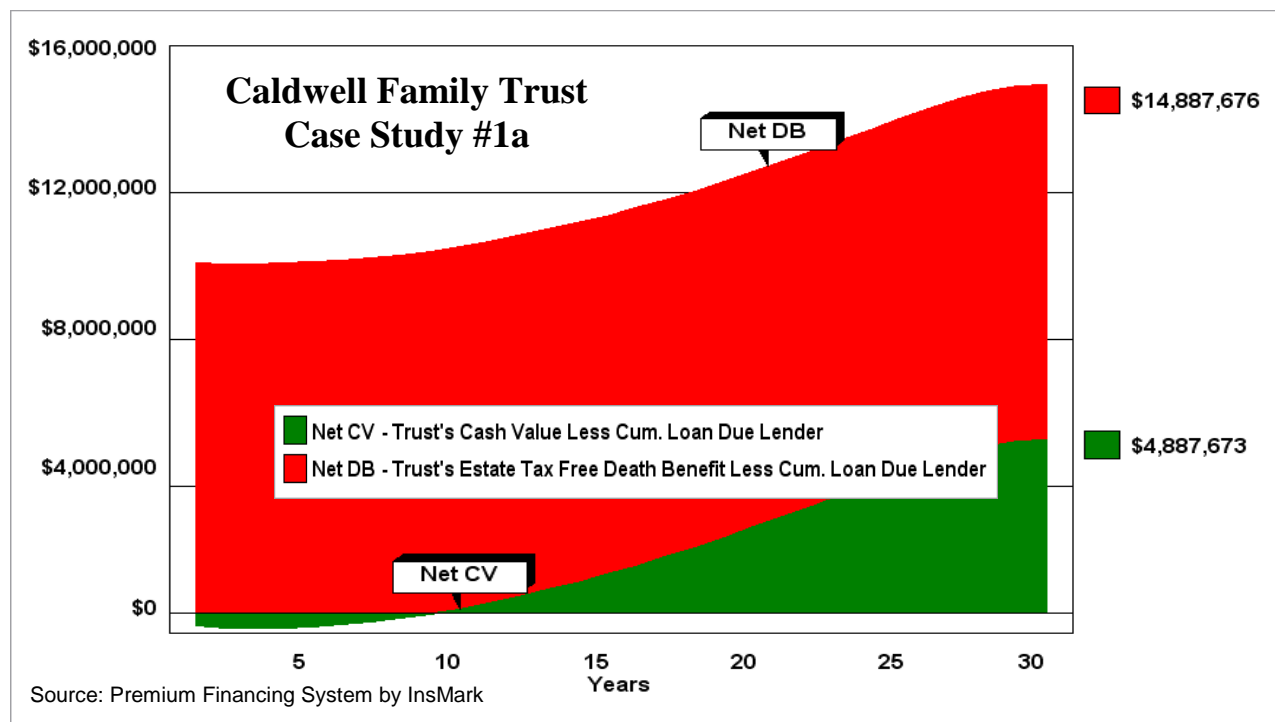
Loan Interest: Accrued @ 5.00%

*The Caldwell's current Net Worth is \$11,450,000.

**The trust is an irrevocable life insurance trust.

Summary of the Caldwell's Premium Financing Illustration

(Illustrated values are not guaranteed.)



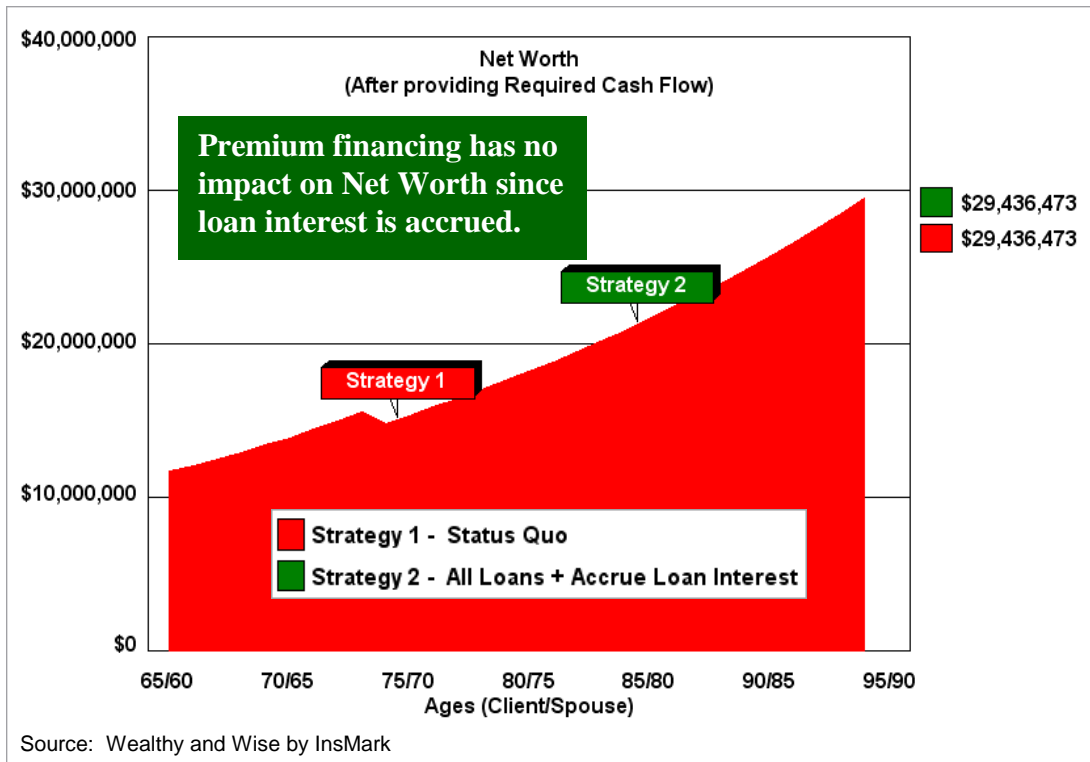
[Click here](#) to review the premium financing illustrations for Case Study #1a.

Wealthy and Wise Analysis of the Premium Financing Illustration for Case Study #1a

While stand-alone premium financing illustrations are valuable in and of themselves, the analysis that follows involves importing James and Whitney's premium financing data into InsMark's Wealthy and Wise System and comparing "don't-do-it" versus "do-it".

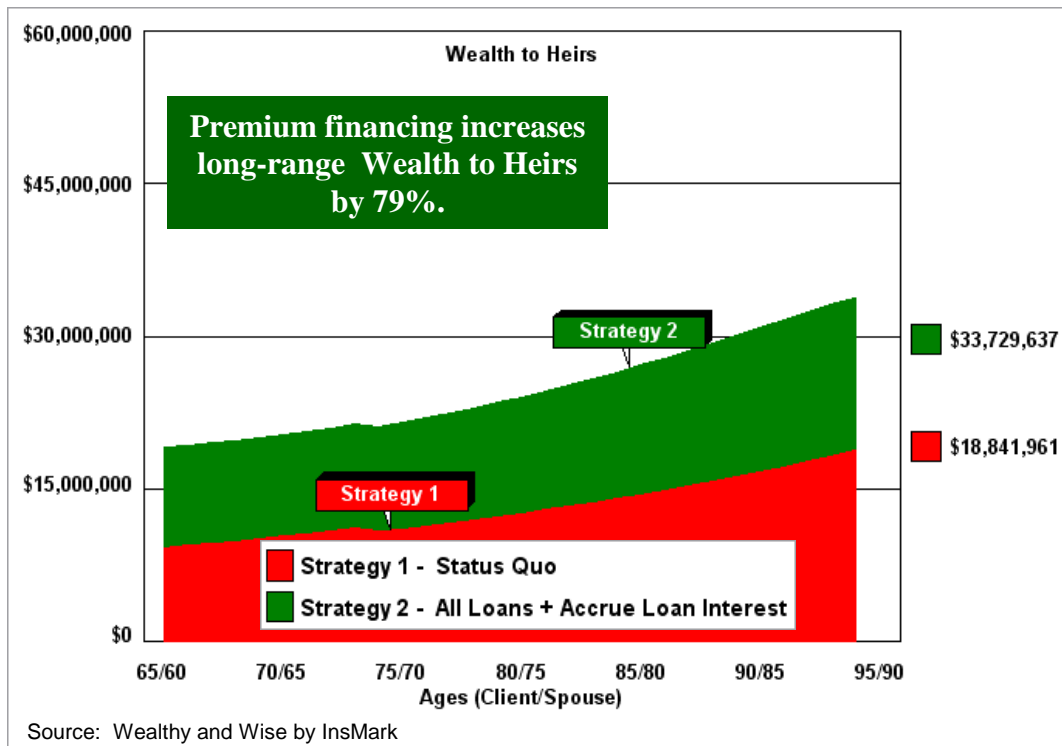
The **don't-do-it** analysis involves a projection of Net Worth and Wealth to Heirs without regard to premium financing. This as Strategy 1, the "Status Quo". The **do-it** analysis (Strategy 2) involves re-projecting Net Worth and Wealth to Heirs including the premium financing data.

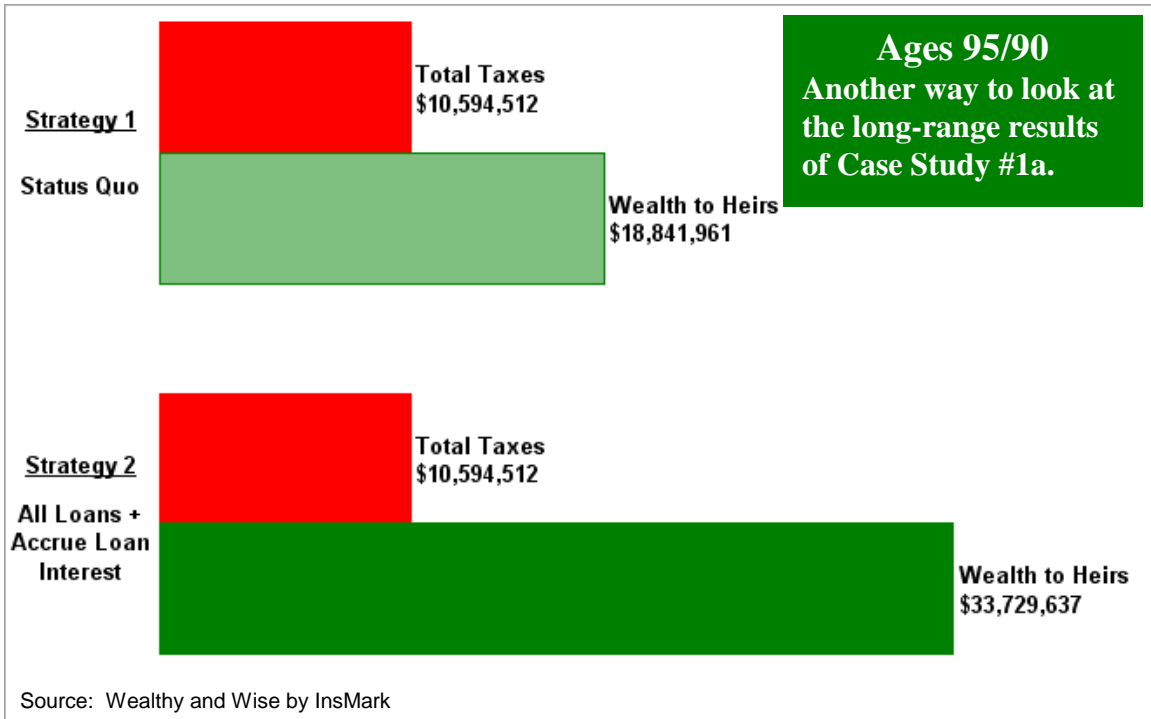
Net Worth Analysis



Estate Tax Forecast: The consensus seems to be that the unified credit equivalent will likely remain at the 2009 level of \$3.5 million (\$7 million per couple) with a top tax rate of 45%. Calculations in the presentations assume this level of taxation.

Wealth to Heirs Analysis





[Click here](#) to review the numerical Wealthy and Wise reports for Case Study #1a.

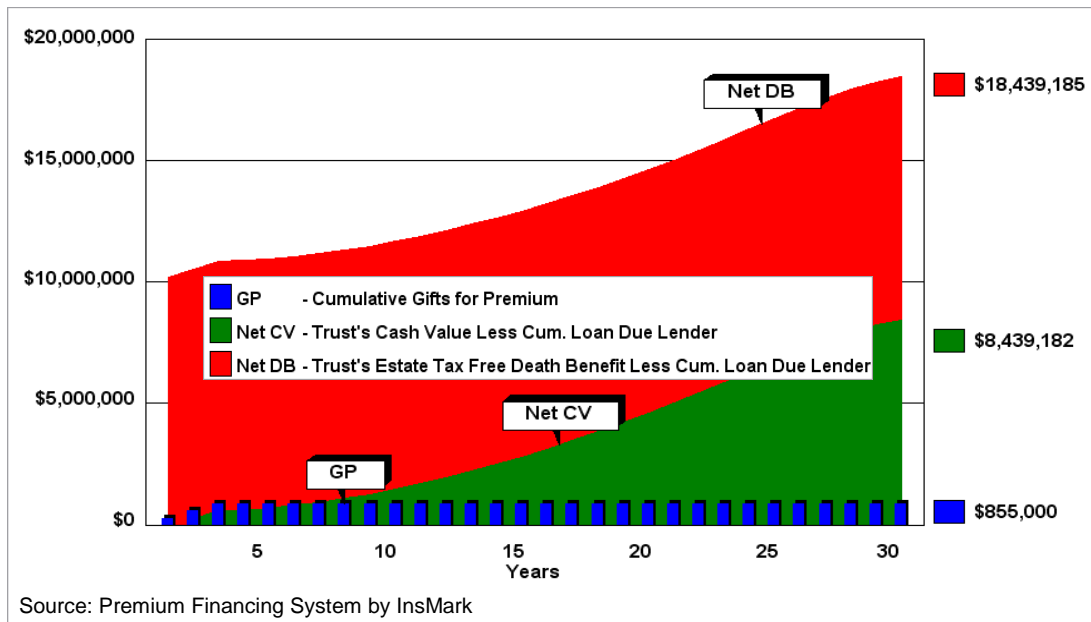
Case Study #1b

Funding: Gift premiums for three years; then bank loans

Loan Interest: Accrued @ 5.00%

Summary of the Caldwell's Premium Financing Illustration

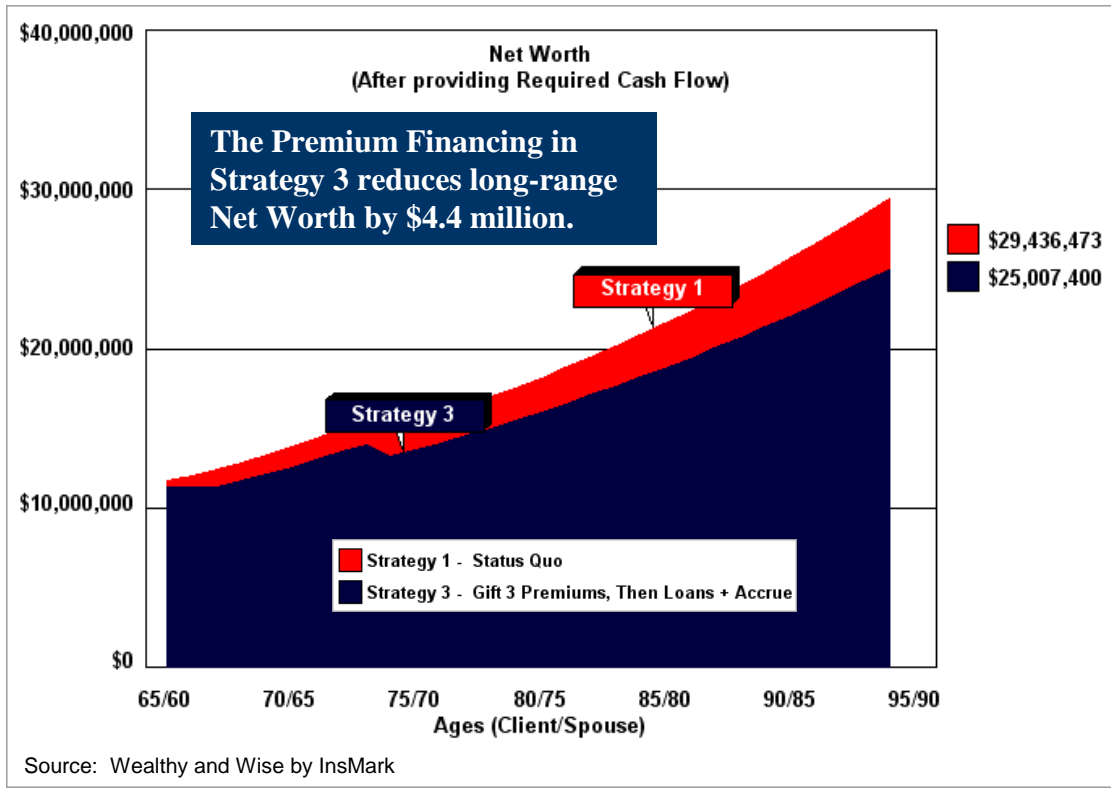
(Illustrated values are not guaranteed.)



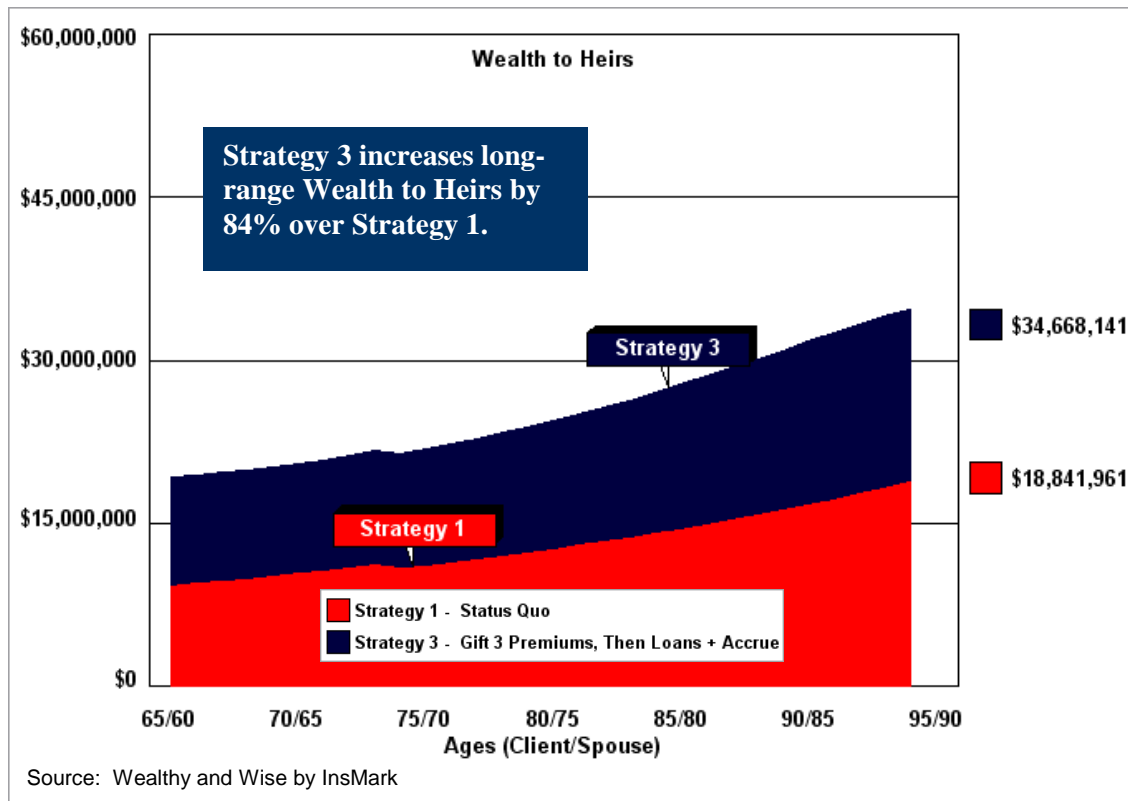
[Click here](#) to review the premium financing illustration for Case Study #1b.

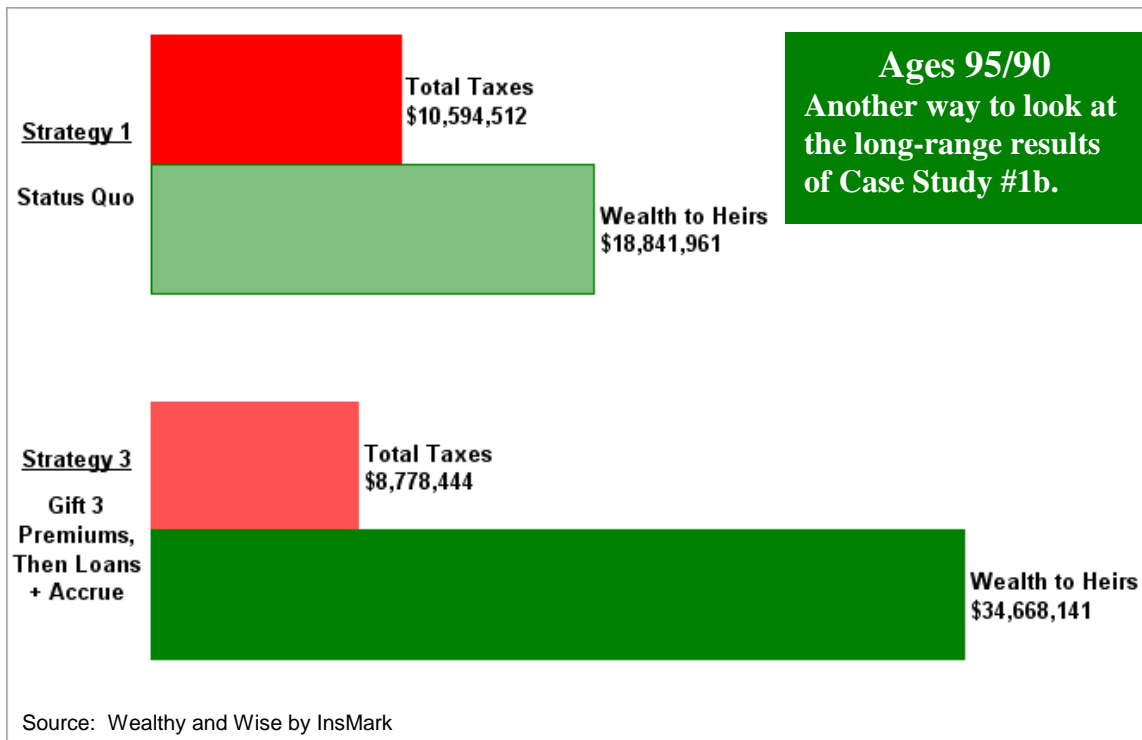
A Wealthy and Wise analysis of Strategy 1 vs. Strategy 3 in Case Study #1b follows.

Net Worth Analysis



Wealth to Heirs Analysis





[Click here](#) to review the numerical Wealthy and Wise reports for Case Study #1b.

See Case Study #2 on page 7 . . .

Case Study #2

Insured: Frank Contini (age 45)

Policy Owner: Frank Contini

Beneficiary: Emily Contini (spouse)

Type of Policy: Indexed Universal Life

Face Amount: \$12 million increasing death benefit

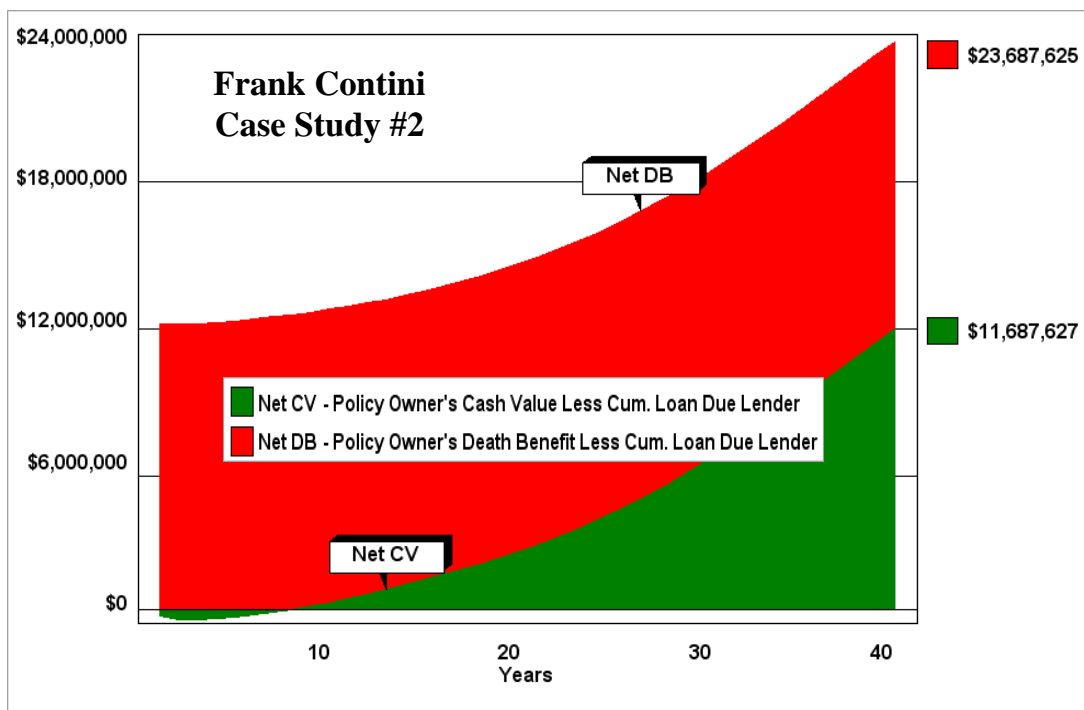
Premiums: \$500,000 a year for 5 years

Funding: Bank loans

Loan Interest: Accrued @ 5.00%

Summary of Frank Contini's Premium Financing Illustration

(Illustrated values are not guaranteed.)



[Click here](#) to review the premium financing illustrations for Case Study #2.

See Case Study #3 on page 8 . . .

Case Study #3

Insured: Frank Contini (age 45)

Policy Owner: Contini Brothers, Inc.

Beneficiary: Contini Brothers, Inc.

Type of Policy: Indexed Universal Life

Face Amount: \$12 million increasing death benefit

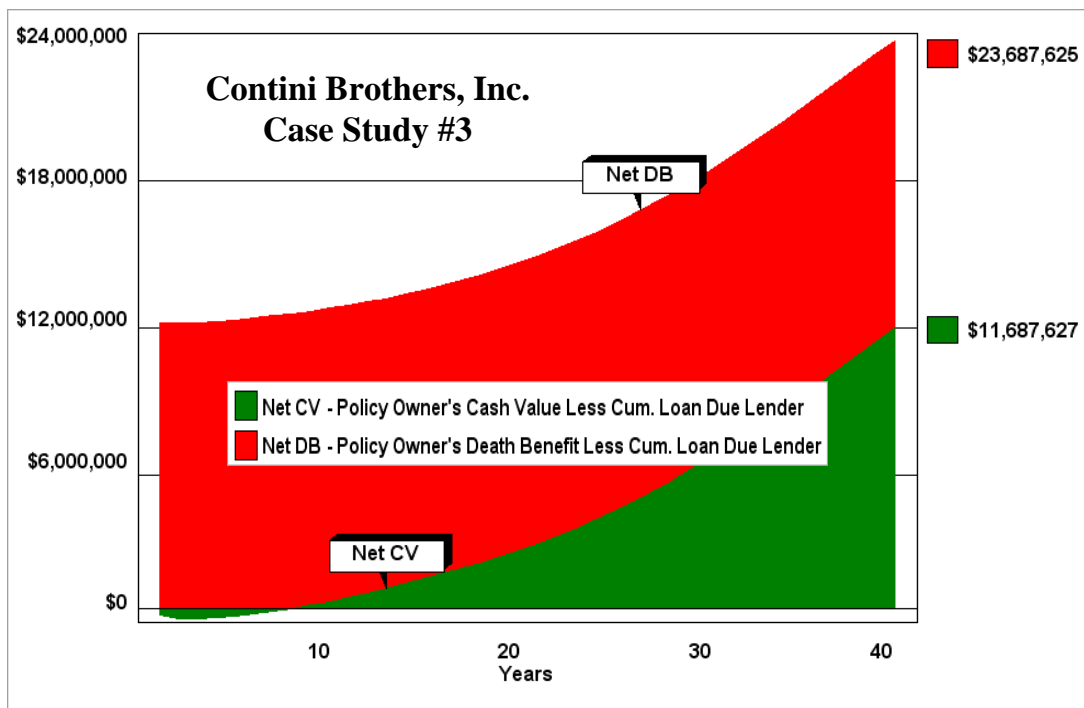
Premiums: \$500,000 a year for 5 years

Funding: Bank loans

Loan Interest: Accrued @ 5.00%

Summary of Contini Brothers Premium Financing Illustration

(Illustrated values are not guaranteed.)



[Click here](#) to review the premium financing illustrations for Case Study #3.

Note: Although this premium financing strategy features indexed universal life, InsMark Systems can illustrate any policy form you choose -- funded with high cash values or minimal cash values.

Resources

A PowerPoint presentation is available for the concepts discussed in this article. Go to the following website and double click on the file named "Premium Financing (CL).pps" listed under Premium Financing Strategies:

<http://insmark.com/WorkbookDownload/ConceptLibrary.html>

If you are licensed for the InsMark Premium Financing System (Version 1.0 and higher) and would like to review the menu prompts we used for this analysis, go to same website and double click the file named "Premium Financing Variations.!PF".

If you are licensed for Wealthy and Wise (Version 10.0 and higher) and would like to review the menu prompts we used for this analysis, go to the same website and double click the file named “Premium Financing Analysis.!WW”.

Licensing

Individual Licensees: Licensing fees for the InsMark Premium Financing System are \$1,299 + \$99/month. Fee for Wealthy and Wise are \$1,499 + \$49/month. Both purchased at the same time are eligible for a discount. Call an InsMark Account Executive at 1-888-InsMark (467-6275) for details.

InsMark’s Platinum-level Power Producers are currently licensed for Wealthy and Wise and the InsMark Premium Financing System.

InsMark’s Gold-level Power Producers and **Silver-level Power Producers** are currently licensed for Wealthy and Wise and are eligible for reduced licensing fees for the InsMark Premium Financing System. Call an InsMark Account Executive at 1-888-InsMark (467-6275) for details.

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Enhancement to the InsMark Premium Financing System

This financing concept involves a policy owned by an executive funded by a bonus from the employer. The tax on the bonus is paid by way of bank (or other third-party) financing. This enhancement is scheduled to be released by the end of the 1st quarter of 2010.

Other InsMark Concepts Involving Financing

Leveraged Compensation System - Version 5.0 (Scheduled for the end of the 4th quarter of 2009)

Leveraged Executive Bonus: This involves an executive-owned policy where the executive’s tax on an employer-paid bonus is funded via employer loans.

Leveraged Deferred Compensation: This financing concept involves an executive-owned policy funded by coupling a compensation reduction and a loan from the employer using a loan-based split dollar technique.

Premium Financing System -Version 2.0 (Scheduled for the end of the 1st quarter of 2010)

This adds an illustration module involving an executive-owned policy where the executive’s tax on an employer-paid bonus is funded by way of bank (or other third-party) financing.

Leveraged Supplemental Executive Retirement Plan (Available currently)

This involves data exported from InsMark Premium Financing illustrations to the COLI modules of the InsMark Illustration System and can result in an executive benefit with \$0 illustrated cost.

Leveraged Split Dollar (Available currently)

Loan-Based Split Dollar & Loan-Based Private Split Dollar illustrations are available in the InsMark Loan-Based Split Dollar System.

Note: Premium financing is not a risk free transaction. Be sure your clients consult their legal and tax advisers before using any of the strategies discussed in this report.

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