

Premium Finance: A Concept To Address Estate Planning Needs

Problem:

You've worked with your clients and established the need for life insurance in an ILIT to provide for estate liquidity; however, your clients are reluctant to proceed because they lack sufficient transfer tax exclusions and exemptions needed to avoid gift taxes on the transfer of premiums to the trust. Additionally, liquidating low basis, highly appreciated assets to pay premiums will result in considerable income tax. The client is looking for a solution that will address these concerns and help meet their estate liquidity needs.

Prospect:

- Has a net worth of \$10 million or more, in reasonably good health, and has a need for life insurance to help provide estate liquidity with a minimum annual premium of \$200,000.
- A sophisticated investor who understands the use of leveraged transactions.
- Willing to pledge assets as collateral to secure the loan.
- Desires to use their cash flow and assets for purposes other than paying life insurance premiums.

Solution:

Consider the use of Premium Finance. Premium Financing combines the use of life insurance to address an estate or business need with the borrowing of money from a lending institution to pay life insurance premiums. It should be noted that Premium Financing Concepts have certain risks that should be considered before entering into such a transaction. Some of the risks are: the possibility of policy lapse, loss of collateral, changes in the interest rate or investment environment that may cause the structure to no longer make economic sense, and failure to re-qualify with the lender to keep the financing in place.

Some Benefits of Premium Financing Concepts:

- **Gift Tax Efficient.** Avoid gift tax on premium payments since payments are borrowed. If loan interest is paid, and not accrued, there may be a gift tax.
- **Control.** The client maintains control and use over assets that otherwise would have been liquidated to pay insurance premiums.
- **Estate Liquidity.** Allows the client to purchase needed insurance to address their estate liquidity needs.

Since Premium Financing Concepts are complex and contain many risks, Prudential requires a client to work with an organization not associated with Prudential, that specializes in the design, implementation, and monitoring of the transaction (Concept Provider). In addition, client's legal counsel must review the transaction to determine if the concept is appropriate for their situation and risk tolerance. For information on Concept Providers specializing in this market, contact the Advanced Marketing Team.

Call our Advanced Marketing Team for more information.

This training material has been prepared to assist our licensed financial professionals. It is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Prudential is not rendering legal, accounting or tax advice. Such services should be provided by the client's own advisers. Prudential's sole role with regard to any Premium Finance Concept is that of a product provider. Prudential is not providing the Premium Financing Concept. Additionally, Prudential is neither endorsing the use of the Premium Finance Concept nor the use of any Concept Provider's Premium Finance Program.

FOR INTERNAL USE ONLY. NOT FOR USE WITH THE PUBLIC.

QUESTIONS? CALL ADVANCED MARKETING

©2005 The Prudential Insurance Company of America
751 Broad Street, Newark, NJ 07102-3777
IFS-A108545 Ed. 09/05 Exp. 03/07

Prudential  **Financial**