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The Benefits Of Premium Financing For Life Insurance

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What is premium financing for life insurance? It is borrowing money from a third party to pay the policy premiums. Once the policy generates enough surplus cash value in lat years, the owner of the policy can then pay back the premium finance loan from policy values. This arrangement is widely accepted by life insurance companies and is utilized by consumers with a minimum net worth (generally at least $2 million) who have a nee for insurance and prefer to retain their capital rather than liquidate assets to pay the premiums.

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Premium financing can be an attractive option to anyone who:

• Needs a substantial amount of insurance for estate-planning, wealth accumulation, liquidity at death, asset protection or business purposes

• Doesn't want to use their existing capital to pay the premiums

• Is insurable at standard rates or better

• Satisfies the carrier's underwriting regulations

The main reason it works is very simple -- all parties involved like it. Borrowers like it because they retain their assets to invest for higher returns than the cost of borrowing. Lenders like it because it gives them a secured long-term loan. Insurance carriers like i because it continues to provide them with large premiums, and agents benefit greatly from these objectives. Insurance companies have developed specific products for those who want to finance their policies, minimizing the need for outside collateral while maximizing returns.

Life insurance can be one of the keys to your financial goals, providing peace of mind, both to you and your family knowing that they will be protected if something unexpect happens. If designed properly, a life insurance policy can be an effective tool for addressing important wealth planning objectives, including protection, liquidity, accumulation and legacy.

While discussing your needs for life insurance, it is important that you consider your goals and objectives. The policy you choose can help you achieve your goals in a tax-efficient manner. Each policy can be financed is designed specifically for each client, depending on their needs and financial wellness. The process is similar to the sale of non-financed policies:

• Agent and client meet to discuss the type of coverage needed.

• A preliminary policy is developed and discussed with both parties.

• Several scenarios are run and discussed until the right plan is picked.

• Insurance underwriting and third-party financing is initiated.

• The policy is issued and accepted by all parties.

• Collateral and interest are provided by the borrower and the lender pays the premium to the insurance company. There is no personal guarantee needed from the borrower o insured.

• Once the policy generates enough surplus cash value, the owner of the policy refunds the loaned premiums and pays accrued interest to the lender.

It must be noted that each loan will be tailored to the need of each client, no two loans are alike. Loan commitments can vary, allowing for the alignment of a long-term need for permanent life insurance with a sustainable long-term financing strategy.

There are many individuals who don't understand the true value of premium financing The general worry is that it is too dependent on interest rates or the performance of the policy. Even with the volatility of these variables, high-net-worth individuals should lo to premium finance as a model to consider when looking at life insurance. Many may need life insurance to address estate issues, business and tax issues and their legacy -- but they also want to continue to grow and protect their wealth. Financing of their policies allows them to hold onto the cash needed for premiums. With this, they are fre to look for opportunities that will yield a return greater than the cost of the loan.

For example, a client is purchasing a policy with a premium of $100,000 per year. They borrow the $100,000 at 5% interest, resulting in an out-of-pocket interest expense of $5,000 for the first year, leaving them with retained capital of $95,000. This can then l used for investments. If put into an investment vehicle that yields a 10% return, at the end of the year the $95,000 will grow to $104,500 -- with life insurance still there to protect their assets. Over time, this will continue to grow.

One thing that successful investors and business executives understand well is the wealth-creating power of leverage. For many who need large policies, financing can greatly reduce out-of-pocket expenses and preserve capital for other investments. Premium financing may also offer tax benefits to their estate. For example, when financing a policy, one may employ an irrevocable life insurance trust. The trustee of th trust names the trust the beneficiary of the policy. Upon the death of the insured, the trust beneficiaries are paid, according to specifications of the trust. These proceeds hav no tax liability.

No financial matter may be as important to you as planning for both your future and your family’s future. Premium financing can be a useful strategy in the right circumstances, but you need to remember, like every investment, there are risks. Befor going forward, it is advisable to speak with a financial professional.

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