

# Premium Financing

For: Robert and Lynne Sullivan



Presented By: \_\_\_\_\_

[Licensed user's name appears here]

## Preface

The primary benefit of a life insurance premium financing strategy is to obtain a significant amount of life insurance coverage at a reduced cash flow cost, and virtually any cash value life insurance policy can be funded in this manner.

The loan structure, loan interest, fees, collateral requirements, and personal guarantees associated with this technique will be determined by the lender.

A secondary benefit of a premium financing strategy is the opportunity for interest rate arbitrage because the loan interest associated with premium financing may be lower than the policy's non-guaranteed internal rate of return.

There are several risks associated with premium financing, some of which are outlined below:

### Lender risk:

- Is the loan a term loan that is due in fewer years than illustrated? If so, the borrower will likely be subject to new loan conditions.
- If the loan is not a term loan, does the lender have the right to demand full satisfaction of the loan at any time? An unlimited right to demand full satisfaction of the loan provides very little security for the borrower.

### Collateral risk:

- The lender may limit the form of acceptable collateral requiring only liquid assets be provided.
- Additional collateral may be required based on a change in the loan requirements of the lender.
- The policy cash values shown on pages that follow are not guaranteed and may be higher or lower than illustrated. Additional collateral may be required if the actual policy cash values turn out to be lower than illustrated.
- A personal guarantee may be required.

### Interest rate risk:

- In some premium financing transactions, the loan interest is a variable rate which resets annually.
- If the loan interest is a fixed rate, how long is it fixed? Is this an acceptable condition?

### Exit strategies:

1. With long-lived insureds, repayment of loans associated with premium financing must be considered, and careful planning should be contemplated in advance to insure a source of funds for this purpose. In some cases, the policy death benefit may be sufficient.
2. In some cases, the sale of the policy to a third party may provide funds to repay outstanding loans.

### Conclusion:

Based on creditworthiness of the borrower, the terms of the lender, and the life insurance company involved, the actual terms of a premium financing arrangement will be different. It is important that the right combination of these three issues be carefully evaluated.

### Important note:

In all cases, be sure to consult with your own legal and tax advisers before entering into this or any other arrangement involving tax, legal, and economic considerations. The approval of these advisers must be secured regarding the implementation or modification of any planning technique as well as the applicability and consequences of new cases, rulings, or legislation upon existing or impending plans.

# Premium Financing Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Robert Sullivan

## Summary

Borrower and Policy Owner: Robert Sullivan

Lender: To be determined

Policy Owner's Income Tax Bracket 45.00%  
 Indexed UL Interest Rate 7.50%  
 Initial Policy Death Benefit 10,500,000  
 Assumed Bank Loan Interest Rate 5.00%

		Premium and Loan Summary					Policy Owner	Analysis of the Collateral		
Year	Male Age	(1) Policy Premium	(2) Loan from Bank to Policy Owner for Premium	(3) Loan Interest Paid by Policy Owner	(4) Net Policy Loan Proceeds Used to Reduce Loan	(5) Cumulative Loan Due Bank	(6) Net Loan Policy Proceeds Available for Retirement Income	(7) Year End Policy Death Benefit	(8) Year End Net Policy Death Benefit (7) - (5)	(9) Year End Policy Cash Value*
1	46	463,085	463,085	23,154	0	463,085	0	10,500,000	10,036,915	400,733
2	47	463,085	463,085	46,309	0	926,170	0	10,500,000	9,573,830	830,921
3	48	463,085	463,085	69,463	0	1,389,255	0	10,500,000	9,110,745	1,293,249
4	49	463,085	463,085	92,617	0	1,852,340	0	10,500,000	8,647,660	1,790,034
5	50	463,085	463,085	115,771	0	2,315,425	0	10,500,000	8,184,575	2,323,700
6	51	0	0	115,771	0	2,315,425	0	10,500,000	8,184,575	2,426,187
7	52	0	0	115,771	0	2,315,425	0	10,500,000	8,184,575	2,538,371
8	53	0	0	115,771	0	2,315,425	0	10,500,000	8,184,575	2,661,464
9	54	0	0	115,771	0	2,315,425	0	10,500,000	8,184,575	2,796,796
10	55	0	0	115,771	0	2,315,425	0	10,500,000	8,184,575	2,946,190
11	56	0	0	0	2,315,425	0	0	8,068,803	8,068,803	679,511
12	57	0	0	0	0	0	0	7,947,243	7,947,243	742,902
13	58	0	0	0	0	0	0	7,819,605	7,819,605	822,311
14	59	0	0	0	0	0	0	7,685,585	7,685,585	919,362
15	60	0	0	0	0	0	153,769	7,383,407	7,383,407	874,344
16	61	0	0	0	0	0	163,717	7,055,674	7,055,674	831,774
17	62	0	0	0	0	0	173,963	6,700,796	6,700,796	792,476
18	63	0	0	0	0	0	184,517	6,317,093	6,317,093	757,405
19	64	0	0	0	0	0	195,388	5,902,791	5,902,791	727,648
20	65	0	0	0	0	0	206,584	5,456,017	5,456,017	704,529
21	66	0	0	0	0	0	218,116	4,974,796	4,974,796	689,403
22	67	0	0	0	0	0	229,995	4,457,041	4,457,041	684,145
23	68	0	0	0	0	0	242,229	3,900,552	3,900,552	690,948
24	69	0	0	0	0	0	254,831	3,303,008	3,303,008	712,458
25	70	0	0	0	0	0	267,811	2,661,957	2,661,957	751,989
26	71	0	0	0	0	0	281,180	2,027,663	2,027,663	813,619
27	72	0	0	0	0	0	294,950	2,020,502	2,020,502	902,501
28	73	0	0	0	0	0	309,133	2,013,932	2,013,932	1,017,928
29	74	0	0	0	0	0	323,742	2,005,665	2,005,665	1,161,948
30	75	0	0	0	0	0	338,789	1,995,386	1,995,386	1,338,870
		2,315,425	2,315,425	926,169	2,315,425		3,838,714			

### 30 Year Analysis

	Living Values	Death Benefit
Indexed Universal Life	1,338,870	1,995,386
Less Loan Repayment Due:	0	0
Plus Cumulative Net Loan Proceeds:	3,838,714	3,838,714
Equals Value to Policy Owner:	5,177,584	5,834,100

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

# Premium Financing Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Robert Sullivan

## Summary

Borrower and Policy Owner: Robert Sullivan

Lender: To be determined

Policy Owner's Income Tax Bracket 45.00%  
 Indexed UL Interest Rate 7.50%  
 Initial Policy Death Benefit 10,500,000  
 Assumed Bank Loan Interest Rate 5.00%

		Premium and Loan Summary					Policy Owner	Analysis of the Collateral		
Year	Male Age	(1) Policy Premium	(2) Loan from Bank to Policy Owner for Premium	(3) Loan Interest Paid by Policy Owner	(4) Net Policy Loan Proceeds Used to Reduce Loan	(5) Cumulative Loan Due Bank	(6) Net Loan Policy Proceeds Available for Retirement Income	(7) Year End Policy Death Benefit	(8) Year End Net Policy Death Benefit (7) - (5)	(9) Year End Policy Cash Value*
31	76	0	0	0	0	0	354,288	2,056,110	2,056,110	1,350,914
32	77	0	0	0	0	0	354,288	2,142,984	2,142,984	1,385,572
33	78	0	0	0	0	0	354,288	2,258,655	2,258,655	1,445,252
34	79	0	0	0	0	0	354,288	2,405,944	2,405,944	1,532,521
35	80	0	0	0	0	0	354,288	2,587,741	2,587,741	1,650,003
36	81	0	0	0	0	0	354,288	2,807,116	2,807,116	1,800,492
37	82	0	0	0	0	0	354,288	3,067,675	3,067,675	1,987,282
38	83	0	0	0	0	0	354,288	3,372,896	3,372,896	2,213,538
39	84	0	0	0	0	0	354,288	3,726,065	3,726,065	2,482,238
40	85	0	0	0	0	0	354,288	4,130,155	4,130,155	2,796,051
41	86	0	0	0	0	0	354,288	4,587,572	4,587,572	3,157,101
42	87	0	0	0	0	0	354,288	5,100,258	5,100,258	3,567,058
43	88	0	0	0	0	0	354,288	5,670,046	5,670,046	4,027,483
44	89	0	0	0	0	0	354,288	6,298,847	6,298,847	4,539,998
45	90	0	0	0	0	0	354,288	6,987,095	6,987,095	5,104,813
46	91	0	0	0	0	0	354,288	7,735,531	7,735,531	5,763,400
47	92	0	0	0	0	0	354,288	8,543,818	8,543,818	6,536,555
48	93	0	0	0	0	0	354,288	9,413,917	9,413,917	7,451,040
49	94	0	0	0	0	0	354,288	10,348,339	10,348,339	8,541,355
50	95	0	0	0	0	0	354,288	11,348,785	11,348,785	9,838,785
51	96	0	0	0	0	0	354,288	12,414,269	12,414,269	11,294,269
52	97	0	0	0	0	0	354,288	13,546,697	13,546,697	12,922,697
53	98	0	0	0	0	0	354,288	14,746,230	14,746,230	14,740,230
54	99	0	0	0	0	0	354,288	16,014,400	16,014,400	16,764,400
		2,315,425	2,315,425	926,169	2,315,425		12,341,626			

### 54 Year Analysis

	Living Values	Death Benefit
Indexed Universal Life	16,764,400	16,764,400
Less Loan Repayment Due:	0	0
Plus Cumulative Net Loan Proceeds:	12,341,626	12,341,626
Equals Value to Policy Owner:	29,106,026	29,106,026

\*This illustration assumes the nonguaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable. This illustration is not valid unless accompanied by a basic illustration from the issuing life insurance company.

# Premium Financing Using Indexed Universal Life

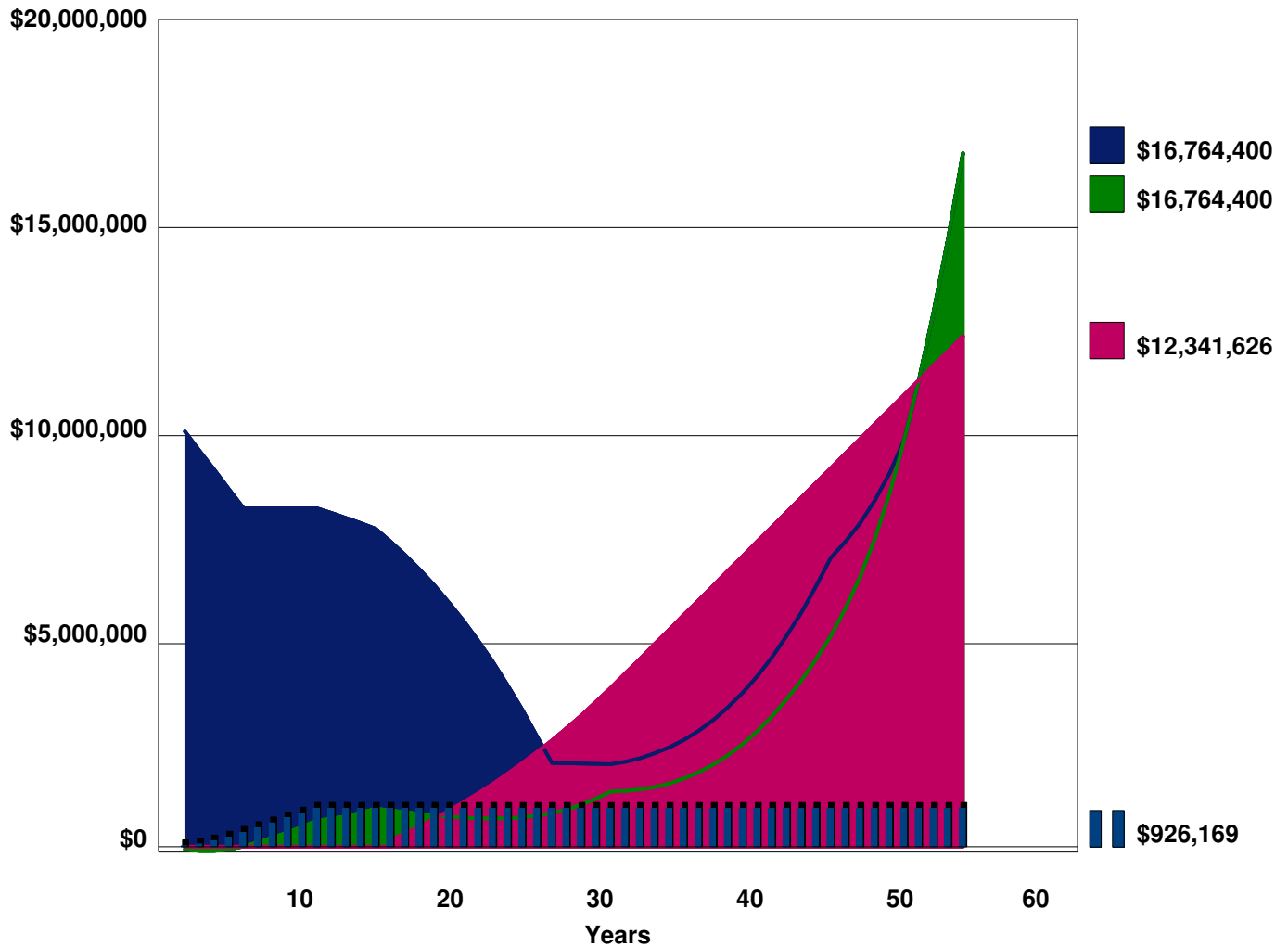
Presented By: [Licensed user's name appears here]

Insured: Robert Sullivan

## Policy Owner's 54 Year Graphic Analysis

Borrower and Policy Owner: Robert Sullivan

Lender: To be determined



At Year 54	
Cumulative Payments for Loan Interest	\$926,169
Cumulative Net Loan Proceeds <sup>1</sup>	\$12,341,626
Cash Value Less Loan Due Bank <sup>2</sup>	\$16,764,400
Death Benefit Less Loan Due Bank <sup>2</sup>	\$16,764,400

<sup>1</sup> For retirement income.

<sup>2</sup> The cumulative loan due bank of \$2,315,425 is assumed paid off at the beginning of year 11 from policy loans.

# Premium Financing Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Robert Sullivan

## Rate of Return (ROR) Analysis

Borrower and Policy Owner: Robert Sullivan

Lender: To be determined

Indexed UL  
Interest Rate  
7.50%

Initial Policy  
Death Benefit  
10,500,000

Assumed  
Bank Loan  
Interest Rate  
5.00%

Policy Owner's  
Income Tax  
Bracket  
45.00%

Loan Interest  
Payment Method  
Paid for 10 Years

Yr	Male Age	Cash Flow Required from Policy Owner				Policy Owner's Year End Cash Value			Policy Owner's Year End Death Benefit		
		(1) Portion of Loan Interest Paid by Policy Owner	(2) Net Loan Policy Proceeds Available for Retirement Income	(3) Combined Cash Flow Required from Policy Owner	(4) Cumulative Cash Flow Required from Policy Owner	(5) Net Policy Cash Value*	(6) Pre-Tax** Equivalent ROR of Net Policy Cash Value	(7) Net ROR of Net Policy Cash Value	(8) Net Policy Death Benefit*	(9) Pre-Tax** Equivalent ROR of Net Policy Death Benefit	(10) Net ROR of Net Policy Death Benefit
1	46	23,154	0	23,154	23,154	0	n/a	n/a	10,036,915	78,633.66%	43,248.51%
2	47	46,309	0	46,309	69,463	0	n/a	n/a	9,573,830	3,337.98%	1,835.89%
3	48	69,463	0	69,463	138,926	0	n/a	n/a	9,110,745	1,017.12%	559.42%
4	49	92,617	0	92,617	231,543	0	n/a	n/a	8,647,660	507.28%	279.01%
5	50	115,771	0	115,771	347,314	8,275	-93.24%	-93.24%	8,184,575	309.79%	170.39%
6	51	115,771	0	115,771	463,085	110,762	-48.29%	-48.29%	8,184,575	215.49%	118.52%
7	52	115,771	0	115,771	578,856	222,946	-29.43%	-29.43%	8,184,575	160.27%	88.15%
8	53	115,771	0	115,771	694,627	346,039	-19.15%	-19.15%	8,184,575	124.78%	68.63%
9	54	115,771	0	115,771	810,398	481,371	-12.76%	-12.76%	8,184,575	100.42%	55.23%
10	55	115,771	0	115,771	926,169	630,765	-8.44%	-8.44%	8,184,575	82.87%	45.58%
11	56	0	0	0	926,169	679,511	-5.52%	-5.52%	8,068,803	69.93%	38.46%
12	57	0	0	0	926,169	742,902	-3.33%	-3.33%	7,947,243	60.07%	33.04%
13	58	0	0	0	926,169	822,311	-1.56%	-1.56%	7,819,605	52.36%	28.80%
14	59	0	0	0	926,169	919,362	-0.09%	-0.09%	7,685,585	46.20%	25.41%
15	60	0	153,769	-153,769	772,400	874,344	2.01%	1.10%	7,383,407	41.25%	22.69%
16	61	0	163,717	-163,717	608,683	831,774	3.86%	2.12%	7,055,674	37.21%	20.46%
17	62	0	173,963	-173,963	434,720	792,476	5.50%	3.03%	6,700,796	33.85%	18.62%
18	63	0	184,517	-184,517	250,203	757,405	7.00%	3.85%	6,317,093	31.02%	17.06%
19	64	0	195,388	-195,388	54,815	727,648	8.38%	4.61%	5,902,791	28.61%	15.74%
20	65	0	206,584	-206,584	-151,769	704,529	9.65%	5.31%	5,456,017	26.53%	14.59%
21	66	0	218,116	-218,116	-369,885	689,403	10.83%	5.96%	4,974,796	24.70%	13.59%
22	67	0	229,995	-229,995	-599,880	684,145	11.93%	6.56%	4,457,041	23.09%	12.70%
23	68	0	242,229	-242,229	-842,109	690,948	12.95%	7.12%	3,900,552	21.65%	11.91%
24	69	0	254,831	-254,831	-1,096,940	712,458	13.89%	7.64%	3,303,008	20.34%	11.19%
25	70	0	267,811	-267,811	-1,364,751	751,989	14.75%	8.11%	2,661,957	19.14%	10.53%
26	71	0	281,180	-281,180	-1,645,931	813,619	15.55%	8.55%	2,027,663	18.12%	9.96%
27	72	0	294,950	-294,950	-1,940,881	902,501	16.29%	8.96%	2,020,502	18.30%	10.06%
28	73	0	309,133	-309,133	-2,250,014	1,017,928	16.95%	9.32%	2,013,932	18.48%	10.17%
29	74	0	323,742	-323,742	-2,573,756	1,161,948	17.55%	9.65%	2,005,665	18.66%	10.26%
30	75	0	338,789	-338,789	-2,912,545	1,338,870	18.09%	9.95%	1,995,386	18.83%	10.35%
		926,169	3,838,714	-2,912,545							

\* After deducting the cumulative loan due to the bank.

\*\* Including a factor for a 45.00% income tax bracket.

# Premium Financing Using Indexed Universal Life

Presented By: [Licensed user's name appears here]

Insured: Robert Sullivan

## Rate of Return (ROR) Analysis

Borrower and Policy Owner: Robert Sullivan

Lender: To be determined

Indexed UL Interest Rate 7.50%    Initial Policy Death Benefit 10,500,000    Assumed Bank Loan Interest Rate 5.00%    Policy Owner's Income Tax Bracket 45.00%    Loan Interest Payment Method Paid for 10 Years

Yr	Male Age	Cash Flow Required from Policy Owner				Policy Owner's Year End Cash Value			Policy Owner's Year End Death Benefit		
		(1) Portion of Loan Interest Paid by Policy Owner	(2) Net Loan Policy Proceeds Available for Retirement Income	(3) Combined Cash Flow Required from Policy Owner	(4) Cumulative Cash Flow Required from Policy Owner	(5) Net Policy Cash Value*	(6) Pre-Tax** Equivalent ROR of Net Policy Cash Value	(7) Net ROR of Net Policy Cash Value	(8) Net Policy Death Benefit*	(9) Pre-Tax** Equivalent ROR of Net Policy Death Benefit	(10) Net ROR of Net Policy Death Benefit
31	76	0	354,288	-354,288	-3,266,833	1,350,914	18.37%	10.11%	2,056,110	19.06%	10.48%
32	77	0	354,288	-354,288	-3,621,121	1,385,572	18.63%	10.25%	2,142,984	19.27%	10.60%
33	78	0	354,288	-354,288	-3,975,409	1,445,252	18.87%	10.38%	2,258,655	19.46%	10.71%
34	79	0	354,288	-354,288	-4,329,697	1,532,521	19.10%	10.50%	2,405,944	19.65%	10.81%
35	80	0	354,288	-354,288	-4,683,985	1,650,003	19.30%	10.62%	2,587,741	19.81%	10.90%
36	81	0	354,288	-354,288	-5,038,273	1,800,492	19.49%	10.72%	2,807,116	19.96%	10.98%
37	82	0	354,288	-354,288	-5,392,561	1,987,282	19.66%	10.81%	3,067,675	20.10%	11.06%
38	83	0	354,288	-354,288	-5,746,849	2,213,538	19.81%	10.90%	3,372,896	20.23%	11.12%
39	84	0	354,288	-354,288	-6,101,137	2,482,238	19.95%	10.97%	3,726,065	20.34%	11.19%
40	85	0	354,288	-354,288	-6,455,425	2,796,051	20.08%	11.04%	4,130,155	20.44%	11.24%
41	86	0	354,288	-354,288	-6,809,713	3,157,101	20.19%	11.10%	4,587,572	20.53%	11.29%
42	87	0	354,288	-354,288	-7,164,001	3,567,058	20.29%	11.16%	5,100,258	20.61%	11.34%
43	88	0	354,288	-354,288	-7,518,289	4,027,483	20.38%	11.21%	5,670,046	20.68%	11.37%
44	89	0	354,288	-354,288	-7,872,577	4,539,998	20.45%	11.25%	6,298,847	20.74%	11.41%
45	90	0	354,288	-354,288	-8,226,865	5,104,813	20.52%	11.29%	6,987,095	20.79%	11.43%
46	91	0	354,288	-354,288	-8,581,153	5,763,400	20.58%	11.32%	7,737,531	20.79%	11.43%
47	92	0	354,288	-354,288	-8,935,441	6,536,555	20.64%	11.35%	8,531,818	20.79%	11.43%
48	93	0	354,288	-354,288	-9,289,729	7,451,040	20.70%	11.38%	9,376,917	20.79%	11.44%
49	94	0	354,288	-354,288	-9,644,017	8,541,355	20.76%	11.42%	10,338,339	20.80%	11.44%
50	95	0	354,288	-354,288	-9,998,305	9,838,785	20.81%	11.45%	11,338,785	20.81%	11.45%
51	96	0	354,288	-354,288	-10,352,593	11,294,269	20.86%	11.47%	12,394,269	20.86%	11.47%
52	97	0	354,288	-354,288	-10,706,881	12,922,697	20.91%	11.50%	13,922,697	20.91%	11.50%
53	98	0	354,288	-354,288	-11,061,169	14,740,230	20.95%	11.52%	15,740,230	20.95%	11.52%
54	99	0	354,288	-354,288	-11,415,457	16,764,400	20.98%	11.54%	17,764,400	20.98%	11.54%
			926,169	12,341,626	-11,415,457						

\* After deducting the cumulative loan due to the bank.

\*\* Including a factor for a 45.00% income tax bracket.

## Rate of Return Calculation Logic

Borrower and Policy Owner: Robert Sullivan

Lender: To be determined

There are four key columns on the accompanying Rate of Return Analysis report:

Net	Net
Rate of Return	Rate of Return
of Net Policy	of Net Policy
Cash	Death
Value	Benefit

Calculations for the Net Rate of Return column show the interest rate that would have to be earned on the out-of-pocket cash flow included in plan funding in order to match the net cash value and net death benefit of the policy. Such out-of-pocket cash flow can include one or more of the following: 1) Loan origination fee and/or other loan fees when not added to the loan; 2) Cost of letter of credit; 3) Premium payments not included in the loan; 4) Payments to the lender for loan interest; and 5) A loan repayment from an outside source. The Net Rate of Return indicated in these columns would be required for the policy owner to produce a similar result using an alternative tax exempt account.

Pre-Tax	Pre-Tax
Equivalent	Equivalent
Rate of Return	Rate of Return
of Net Policy	of Net Policy
Cash	Death
Value	Benefit

Calculations for the Pre-Tax Equivalent Rate of Return column show the pre-tax equivalent interest rate that would have to be earned on the out-of-pocket cash flow included in plan funding in order to match the net cash value and net death benefit of the policy. Such out-of-pocket cash flow can include one or more of the following: 1) Loan origination fee and/or other loan fees when not added to the loan; 2) Cost of letter of credit; 3) Premium payments not included in the loan; 4) Payments to the lender for loan interest; and 5) A loan repayment from an outside source. This calculation grosses up the Net Rate of Return by a factor that accounts for the policy owner's income tax bracket. The Pre-Tax Rate of Return indicated in these columns would be required for the policy owner to produce a similar result using an alternative taxable account.