Hinsdale™
MAGAZINE

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WEALTH PLANNING NETWORK

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MAXIMIZING YOUR ESTATE

What is Premium Financing and How Can it Benefit You?

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What is Premium Financing?
Simply put, Premium Financing is a planning strategy that enables ones Irrevocable Life Insurance Trust to borrow funds at a competitive interest rate from a bank to cover the cost of insurance for a large insurance policy, eliminating the need to liquidate assets to pay the policy premiums. The policy cash value is generally used as the majority of the collateral for the loan. This tool can be advantageous to high net worth individuals to not only fund large insurance policies, but to create liquidity at death as well as reduce income, estate, and gift taxes. It is also a great way to take advantage of the low interest rate environment we are in.

How does it Work?
The way that it works is pretty simple. Essentially, one sets up an Irrevocable Life Insurance Trust (ILIT) as the owner and beneficiary of the Insurance Policy. An arrangement is setup with the bank, who acts as the lender of the premiums, and may require some assets to be collateralized. By leveraging a lender's capital rather than your own to pay annual premiums, you can retain your capital in high returning investments.

The loan could be paid off from: 1) a portion of the death benefit proceeds upon the death of the insured(s), 2) a tax-free withdrawal from a portion of the cash value, or 3) an asset sale in the future. The remaining death benefit is then paid out to the trust after the client passes, which is generally income and estate tax free, for the benefit of the heirs. The trust is written to retain the assets in trust, with provisions for distributions. This allows additional asset protection for the heirs.

How Can It Benefit You?
Premium Financing can be a very valuable tool for those who want to maximize their estate with a substantial life insurance death benefit while still retaining their assets while they are still alive and well. By leveraging these assets, a larger death benefit can be achieved. When the death benefit is paid to the trust, it is generally paid income tax and estate tax free leaving more for your heirs. Not only is this benefit potentially income and estate tax free, but it can also be structured to avoid reducing one's lifetime exemptions, such as the annual gift exclusions ($17,000/individuals, $34,000/couples) and reducing the overall lifetime exemptions($12.92million/individuals, $25.84 million/couples).Depending on how many beneficiaries your trust names, the contributions to each may be eligible as an annual exclusion gift which is nontaxable. As you see, while reaping the benefits from the larger death benefit, you still retain control of your assets without liquidation.

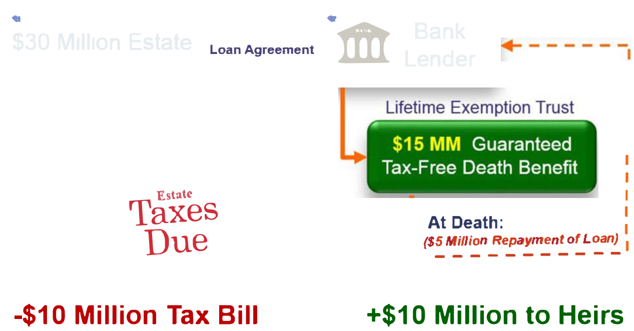
Situation:

Imagine having a thriving family business that you would like to leave to your heirs. Or, maybe you want to leave your children a substantial piece of land. In your estate planning, however, you discover that your $30 million estate will be subject to a $10 million tax bill. The only way for your estate to pay this tax liability, in the absence of additional advanced planning, may be to sell the family business or land you wish to pass on. You don't want your heirs to be forced into a fire sale, where they must take any offer just to liquidate as quickly as possible. Fortunately, there is another way to address these potential liquidity needs.

Premium financed life insurance can be both a tax-efficient and cost-effective source of funds for addressing these issues. Many high net worth individuals use life insurance and trusts in their overall estate plan to help preserve their estate from tax liabilities and other expenses. To pay for these large premiums, life insurance premium financing may be an attractive option. As you see, by entering into a loan agreement with the lender, after one passes away and the repayment of the loan is made to the bank, the heirs benefit is $10 million dollars tax-free, opposed to the first scenario where they are owing $10 million dollars in taxes.

While Premium Financing is a very advantageous strategy for some, it does have associated risks. Interest rate risks may be the most substantial, due to the rate's fluctuation over time. Collateral requirements may increase if the lender deems it necessary, and may require additional assets, or a letter of credit.

As always, speak to your trusted financial advisor to see if this opportunity may be appropriate for you and your financial situation.



Michael Jankowski named as a 2011 - 2022 Best Financial Advisor for Doctors.

For the seventh year in a row, Michael is also honored to have been named by Chicago Magazine as a Five Star Wealth Manager according to QMI research.

Michael and his team are often sought by local and national media. He has appeared in several national publications including Forbes, Wall Street Journal, Newsweek and Chicago Magazine.

For over 25 years, Wealth Planning Network has successfully helped hundreds of High Net Worth clients achieve their financial goals. Michael and his team specialize in advising leading medical professionals with the complex financial issues inherent in wealth preservation and tax minimization.

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