



WealthPlanningNetwork™
Managing Wealth Across Family Generations

Financing Premiums for a Life Insurance Policy

Understanding Your objectives
and the customizable features
available

Premium Finance

Understanding Your objectives and the customizable features available

Why Finance Life Insurance premiums?

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Why Finance Life Insurance Premiums?

Why Finance Life Insurance Premiums?

Financing your life insurance premiums can be a powerful, flexible, and tax-efficient option for permanent life insurance premium payments.

Whether you desire an additional tax-free income stream in the future, or a significant death benefit to pass to your heirs, premium financing can be an efficient way to meet a myriad of objectives.



STRUCTURE FOR CASH GROWTH

Building up cash in the policy is an effective way to grow leveraged dollars in a tax-free environment. The cash value in the policy can be accessed, via tax-free distributions, during your lifetime.

You may also opt to allow the cash to continue growing over time in the tax-free environment.



STRUCTURE FOR ESTATE PLANNING

Ideal for those who desire a substantial amount of life insurance – for business planning, tax planning or to transfer wealth to future generations — and who don't want to write significant premium checks.

Clients finance premiums for various reasons; it could be for lack of liquidity, or they simply would rather use the bank's money and pay interest at a low rate to provide beneficiaries with death benefit in the future.

LOW INTEREST RATE ENVIRONMENT

The interest rate environment may provide an opportunity to achieve a positive spread in a properly structured premium finance program. Reasons why now is a good time to finance life insurance:

1

LIBOR* Rates are Low

4

Pricing on 10Year Rate Caps / Swaps

2

10 Year Treasury Rate Low

5

IUL Policy Crediting Rates Consistent

3

Yield Curve Inverting

* London Interbank offered rate

Understanding Leverage in Life Insurance

Understanding Leverage in Life Insurance

Successful investors and businesspeople understand the wealth-creating power of using borrowed capital, or debt to increase the potential return of an investment. When financing insurance policies, it involves borrowing money from the bank and using those borrowed funds as a premium payment with the expectation to earn a higher return than the interest you owe.

Banks lend based on LIBOR (London Interbank Offered Rate). Banks add in a small spread over LIBOR for themselves. These rates move daily, based on an average, and will fluctuate during the length of the loan. The daily rates are easy to verify on the internet and banks offer full transparency.

For those with an established want or need for life insurance, premium financing may allow you to:



Take advantage of leverage to potentially reduce out-of-pocket costs



Preserve capital for more lucrative investments.



Create equity in a tax-favored environment to produce cash growth or future income



Take advantage of potentially significant gift and estate tax benefits

USING INDEXED UNIVERSAL LIFE INSURANCE (IUL) IN FINANCED DESIGNS

At WPN, we tend to prefer Indexed Universal Life policies as there is an annual collared return on an equity index, typically the S&P 500, with a floor and a cap. The insurance company guarantees you will not earn less than the floor and you won't earn more than the cap in any given year. Over the long-term, we believe IULs provide predictability on how these policies will perform in a collared environment. We take advantage of that by borrowing from the bank at a lower rate than we expect to receive in the policy as a credit. By earning the difference in the spread, we are essentially arbitraging interest rates with the percent you are credited in the insurance policy.

HOW WE STRUCTURE THE PROGRAM



STRUCTURE FOR CASH GROWTH

Grow to either earn a tax-efficient return or produce a cash flow later in life



STRUCTURE FOR ESTATE PLANNING

Receive a larger death benefit for his/her estate

Based on the client's objective we will structure the strategy differently to achieve one of these goals.

Understanding Leverage in Life Insurance

TAILORING PROGRAMS TO ADD FLEXIBILITY

Sometimes there are advantages to modifying the death benefit in the short term to help long term performance allowing the cash to grow more effectively. We also have the flexibility to choose when to pay off the loan, when to pay interest, how much to borrow, and when to pull out money if necessary. Every case is different, and we tailor this experience based on the needs of the clients.

You also can limit your interest rate exposure by locking in long-term interest rate caps, collars, or the use of swap programs.

- A cap will put a ceiling on how much interest you pay each year even if interest rates rise.
- A collar will put a floor and a ceiling on how much interest you pay each year, and
- A swap allows us to swap a variable rate contract for a fixed-rate.

By incorporating these financial instruments into your premium finance strategy, they can improve the opportunity for success and minimize variability for the long term.

While we can pull different levers within the insurance contract and monitor interest rates, there are also many other questions, such as:

- I hold the policy inside or outside of an estate?
- Who's the insured and which insurance carrier to use?
- How long should I borrow?
- What should I use for collateral?

All are important considerations and can make a big difference in the final outcome.

FLEXIBLE PROGRAM FEATURES:

- Structure for cash growth
- Structure for death benefit
- Policy pay off date
- When to pay interest
- Ownership and trust structure options
- Policy ownership
- Who should be insured
- Carrier and product options
- Borrowing term
- Collateral

BUILD IN INTEREST RATE CONTROL FEATURES:

- Cap interest rates
- Collar interest rates with a floor and cap
- Swap variable for fixed rate

Understanding Leverage in Life Insurance

COMPARE TWO STRATEGIES WITH OR WITHOUT FINANCING

ASSUMPTIONS:

SAME CASH OUTLAY \$1,050,000

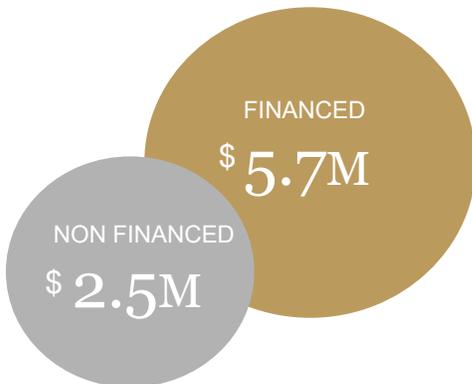
FEMALE: AGE 50 | PREFERRED HEALTH | LOAN INTEREST RATE: 4.75%



STRUCTURE FOR CASH GROWTH

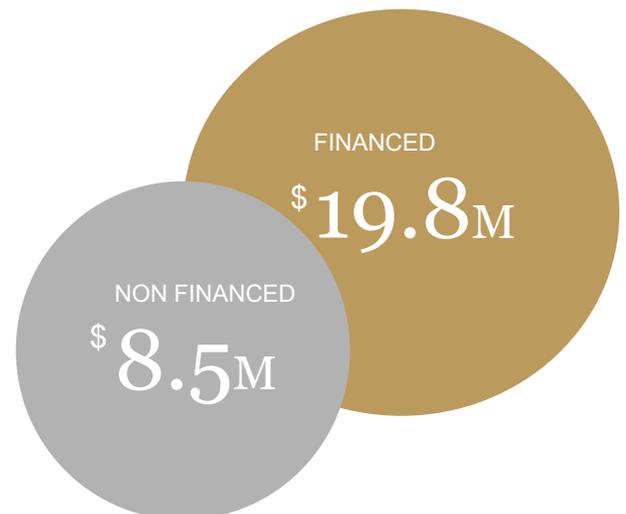
YEAR 20:

CASH AVAILABLE FOR WITHDRAWAL
DURING RETIREMENT (NET OF LOAN)



STRUCTURE FOR ESTATE PLANNING

DEATH BENEFIT AT AGE 90
(NET OF LOAN)



* Past performance may not be indicative of future results.

Insurance products offered through Wealth Planning Network are issued by various third-party carriers.

Who should consider?

WHO SHOULD CONSIDER

Premium Finance is most effective for **ULTRA-HIGH NET WORTH** individuals because banks tend to lend at more favorable borrowing rates.

Final eligibility for premium financing will be based on meeting financial and medical requirements for the life insurance policy and the financial lender. Long term investment time horizon greater than 10 years or more.

CRITERIA AND BORROWER TYPE:

- Investors comfortable with leverage
- Net Worth of \$5,000,000 or more
- Long-Term Investment horizon of 10 years or more



Individuals with net worth of \$5 million or higher



Individuals, trust, corporations or partnerships with a desire or need for significant amount of life insurance



Individuals who, given the illiquid nature of their estate, may not have the cash to pay life insurance premiums



Individuals looking to create a future tax-free income stream

PREMIUM FINANCE FOR BUSINESS OWNERS

Most business owners understand the power of leverage for their business which is why financing the life insurance premiums can be an attractive option. Life insurance is frequently utilized to address a number of common objectives. Borrowing to pay life insurance premiums can free up assets for other business initiatives.

WHY FINANCE?

- **Preservation of capital:** Amortize your payments over the term of the loan and free up working capital to invest in other business opportunities.
- **Potential for higher returns:** Earn more on the retained capital than you would by paying your insurance premiums outright.
- **Availability of credit:** Keep your credit lines open for other business purposes.
- **Flexibility:** An array of options on the loan, insurance policy, and ownership structure to match your goals and objectives. Ability to also alter and modify certain aspects after initial placement in order to stay nimble with the market environment.

FOR BUSINESS OWNERS IN THE GROWTH STAGE:

Split Dollar, Buy-Sell Agreement, Executive Bonus, Retirement Income:

- Age 40-60 years old
- Minimum net-worth \$5M or possess a strong company balance sheet
- Focused on the growth of their business

FOR BUSINESS OWNERS IN TRANSITION STAGE:

Insured Family Legacy, Buy-Sell Agreement, Retirement Income Maximization, Life Insurance as an Asset Class:

- 65+ years old
- Planning their exit strategy
- Looking at retirement

Loan Information

LOAN INFORMATION

In a premium financing deal, banks will typically loan up to 95% of the cash value in a policy to fund a transaction. The loan will come from an independent lender. Each lender will have its own rules, procedures and requirements.

Lenders are willing to lend at 95% loan-to-value ratio because the policy has the backing of the insurance company, relatively low volatility, and the certainty of the death benefit payout. The banks consider these policies as strong collateral from a risk perspective.

LENDER REQUIREMENTS

Every client who engages a lender will be asked to present the following:

- Personal financial statement
- Trust document
- Three Years of tax returns
- Insured & Trustee information
- Bank Statement
- Credit Check

LOAN FEATURES



THE AMOUNT

The minimum loan amount is set by each individual lender. Banks are willing to loan based on the financial strength of the borrower and the structure is designed on a client- by-client basis.



THE TERM

The premium loan is typically lent on an annual basis. This means that if the insurance policy continues to perform under the terms of the various agreements, and if the economic case for maintaining the structure remains viable, the bank will continue to loan an additional premium each year.



REPAYMENT

Generally, the loan repayment is going to come from the cash value in the policy which takes 5 to 7 years to accumulate. Loan repayments generally occur between year 10 to 20, based on policy performance and interest rates.

INTEREST RATE HEDGING



CAPS

A cap will put a ceiling on how much interest you pay each year even if interest rates rise.



COLLARS

A collar will put a floor and a ceiling on how much interest you pay each year.



SWAPS

A swap allows us to exchange a variable rate contract for a fixed-rate

Insurance Underwriting

INSURANCE UNDERWRITING

STEPS TO COMPLETION:

The life insurance underwriting process varies by case and takes approximately 4 to 5 weeks to issue a policy. Steps may include:



WEALTH PLANNING NETWORK UNDERWRITER ADVOCATE WILL CONTACT YOU TO:

- Complete our Fact Find Questionnaire - this may take 5 to 10 minutes
- Obtain a list of your doctors and a signed HIPAA form
- Let you know what to expect from an insurance exam



WEALTH PLANNING NETWORK COLLECTS AND SUBMITS RECORDS:

- WPN will contact your doctors to obtain medical records at no cost to you
- WPN will submit records to various insurance carriers for review & obtain preliminary offers



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PREPARE FOR FORMAL INSURANCE APPLICATION:

- WPN will obtain signatures for all formal application paperwork
- You may be contacted to complete a telephone interview with an independent, third-party reporting firm that will verify the information you have provided on the application
- WPN gathers and submits financial information



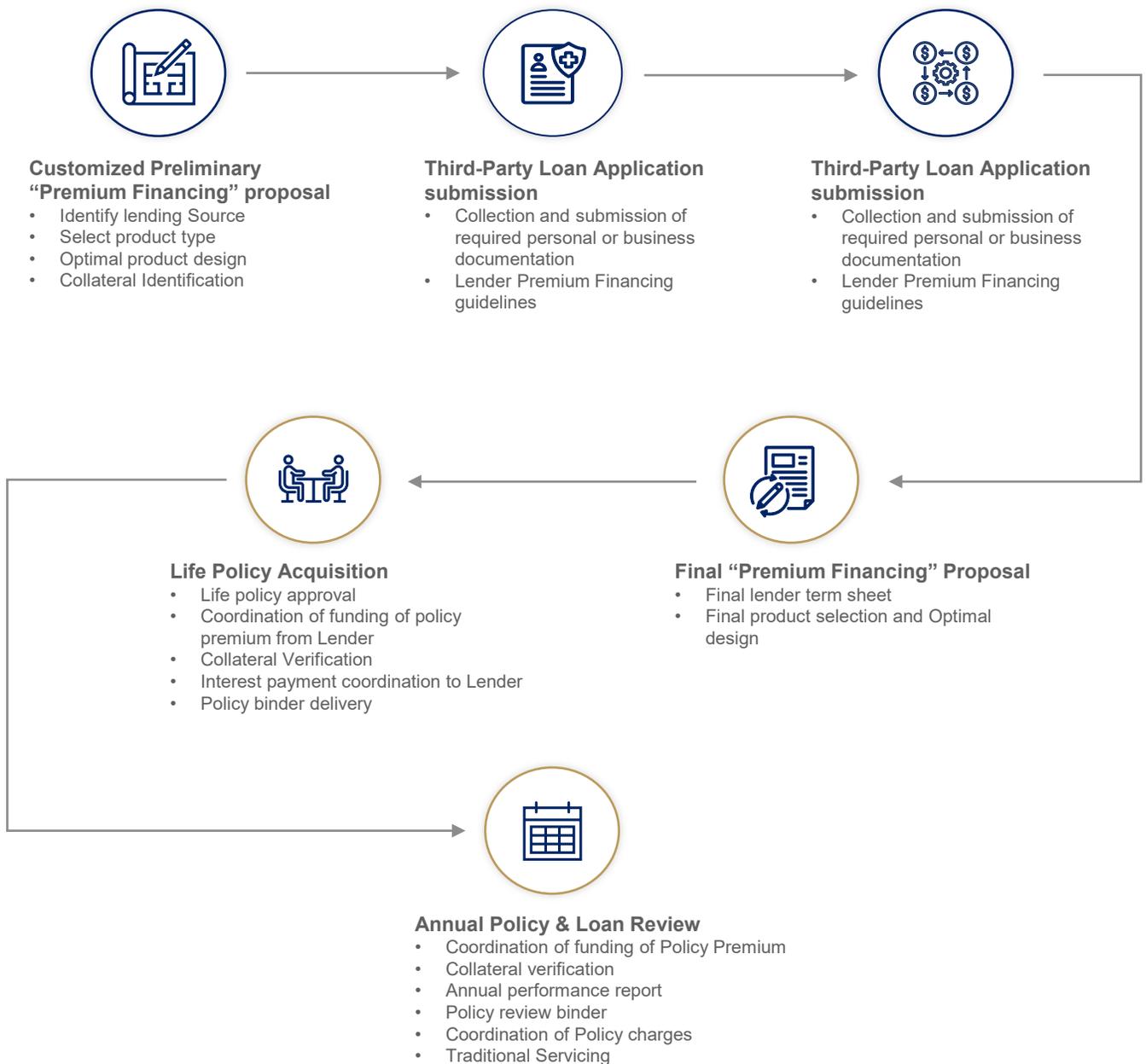
FORMAL POLICY IS ISSUED BY INSURANCE COMPANY:

- Your WPN Underwriter Advocate will contact you and collect any signatures and funding necessary to place your policy in force

What's the Process?

WHAT'S THE PROCESS?

Wealth Planning Network's Financed Life Insurance Program, is a customized strategy, tailor-made for each client. We leverage our deep industry knowledge and relationships - with highly rated lenders and carriers - along with our full-service back office, fit with strategy design analysts, attorneys, senior-level underwriters and post-sale service professionals, to ensure all details are covered.



Accessing Your Money & Considerations

ACCESSING YOUR MONEY

Depending on a client's objective, policy performance, and current market environment, there are multiple strategies to evoke when accessing the funds rendered from a premium finance deal.



FOR CASH GROWTH

A policy holder has a right to access funds accrued in their policy any time as a tax-free distribution in the form of cash. However, waiting to access the cash, preferably after year 10-12, is typically more advantageous as it takes time for these policies to grow. A client can access roughly 90% of the cash surrender value in the policy at any time. As money is withdrawn from the contract, its value starts to deplete based on the amount removed. If the cash value in a policy isn't accessed during a client's lifetime, it is transferred to their beneficiaries in the form of a tax-free death benefit.



FOR ESTATE PLANNING

If a client has structured their policy with estate planning as their objective, they likely won't access the policy's cash value during their lifetime. Upon the insured's death, the policy death benefit will be distributed to a trust, charity, or designated beneficiaries tax-free.

CONSIDERATIONS

INTEREST RATE FLUCTUATIONS

While LIBOR tends to fluctuate daily, the purpose of caps, collars, or swaps, is to mitigate the risk. Depending on the current market environment, rates will move up and down at a given time during the life of a loan. This will affect the amount of interest an individual will have to pay and will be variable. If rates drastically increase, it could affect program performance.

COLLATERAL

In the early years of the policy, the amount borrowed from the bank will exceed the cash in the policy and will thus require outside collateral.

POLICY MISMANAGEMENT

If the policy lapses due to too much taken out it becomes taxable. Annual monitoring, servicing and in-depth structure analysis is recommended.

STRUCTURE, LEGAL & TAX

STRUCTURED FOR CASH GROWTH:

When designing a policy as a cash value investment, most individuals decide to hold the policy in either their revocable trust or somewhere else within the estate. This allows the client to access cash flow and have full control and flexibility over the asset during his lifetime. If a client never withdraws or loans from the policy, the death benefit proceeds, which will always be greater than or equal to the cash surrender value, will still pass onto their beneficiaries and would be included in the client's estate. This means it could be subject to estate taxes depending on whether the death benefit is greater than the current exemption.

STRUCTURED FOR ESTATE PLANNING:

In a typical premium financing arrangement that is designed for death benefit, the client establishes an irrevocable life insurance trust (ILIT), which borrows the funds and acquires the life insurance policy. Holding the policy in a properly structured ILIT helps ensure that, under current law, the death benefit and cash value pass to the client's family free of estate taxes. Another advantage to clients that want to borrow is for estate planning purposes due to gifting limitations. In a traditional non-financed arrangement, the policy holder makes annual contributions to cover the premium payments. Often, these gifts exceed the \$17,000-per-beneficiary annual gift tax exclusion, so they use a portion of the policy holder's lifetime exclusion or, if the exclusion has already been exhausted, trigger gift taxes. With premium financing, annual contributions are generally limited to interest payments on the loan, which are more likely to fall within the annual exclusion.

Frequently Asked Questions

FREQUENTLY ASKED QUESTIONS

Whether you're a high-net-worth client that desires an additional tax-free income stream in future years or desiring significant death benefit to pass to your heirs, financing life insurance premiums should enable you to earn a spread between expected policy returns and the borrowing rates.

Premium finance is not a set it and forget it investment, nor is it one-size-fits-all. In its most effective form, it's a custom-built strategy with a pulse, and requires frequent care throughout a policyholder's lifetime.

1

PREMIUM DOLLARS GOING INTO THE CONTRACT

Q: Is there any benefit to paying some premium out of pocket?

A: The decision to borrow every premium or fund some out of pocket is customizable to everyone. Your liquidity and investment objective must be taken into consideration when designing and implementing these complex strategies.

2

WHEN & HOW TO PAY BACK THE LOAN

Q: Do I wait and pay it off with the policy's death benefit?

A: Every premium finance design is different; there is no one size fits all. One of the most important aspects of this program is the ongoing maintenance and monitoring of the transaction. Your advisor will work with you to carefully monitor policy performance, your changing needs, interest rates and lending sources. The answers to these questions change over time; your advisor will manage and inform you over the course of the policy's lifetime.

3

HANDLING INTEREST PAYMENTS (PT. 1)

Q: Do I pay interest out of pocket every year or let interest accrue?

A: Paying interest out of pocket or letting it accrue is specific to each individual situation. If there is enough available collateral, and the alternate use of funds nets higher returns than the financed life insurance, it may be advantageous to delay making interest payments. This will depend on each lender and your financial standing.

4

HANDLING INTEREST PAYMENTS (PT. 2)

Q: Do I let the cash in the policy grow for 'x' years, then use it to pay the interest?

A: Most well-structured premium finance programs use policy values to make some interest payments before the loan is paid back. The number of years it takes to reach that point will vary depending on your age and health profile, financial situations and borrowing capacity.

5

SECURING & REFINANCING THE INITIAL LOAN

Q: How do I select a lender?

A: As interest rates change and credit markets evolve, it is very important to select an advisor that closely monitors the landscape and has access to a variety of premium finance sources.

6

ANNUAL POLICY REVIEW

Q: How do I know my Premium Finance Program is performing as planned

A: Wealth Planning Network's in-house service team will monitor and report policy and loan performance yearly and make recommendations for program modifications if needed.

CASE STUDY: ESTATE PLANNING

Premium Finance (Structured for Death Benefit)

CASE STUDY: ESTATE PLANNING
Premium Finance (Structured for Death Benefit)

EXECUTIVE SUMMARY

Client needs \$20 million of life insurance to handle future estate tax bill due to illiquidity of his estate. They would like to use leverage to secure the desired death benefit for the future estate tax liability.

THE CHALLENGE

A client does not have the current cash flow to comfortably fund the insurance policies. By borrowing to secure the insurance need, client can minimize out of pocket expense and realize a better rate of return on the dollars dedicated to the insurance program.

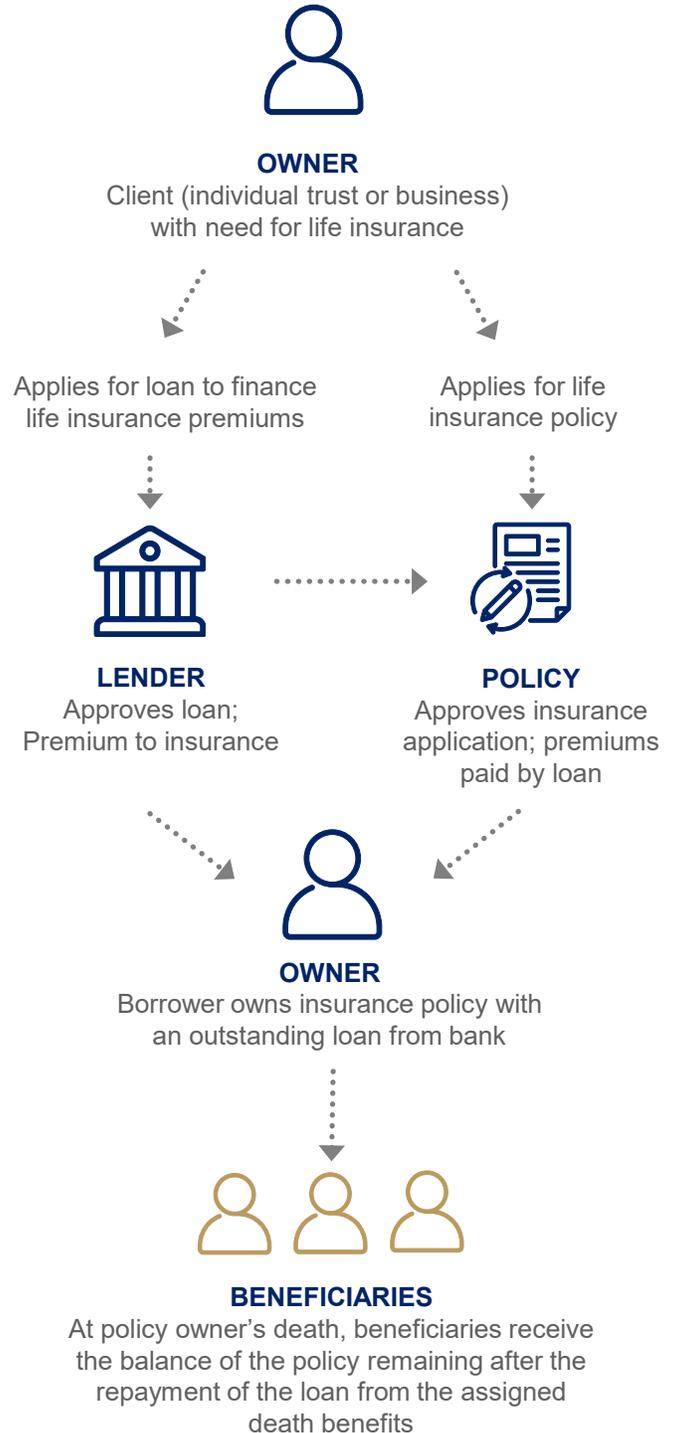
THE SOLUTION

WPN underwrites the client for a significant amount of life insurance with an annual premium of \$1 Million. The policy is used as primary collateral (95% LTV) and minimal additional outside collateral is required in early years before cash value begins growing significantly. Client pays interest expense annually and by year 15 to 20*, policy cash value grows sufficiently to pay back the loan and leave client with desired death benefit.

THE RESULT

Death benefit is fulfilled with significantly lower out of pocket expenses and was projected to produce a higher potential expected return than a typical non-financed life insurance policy.

*The year in which the bank loan is paid off from the policy's cash value will be depended on performance of the policy.



*Past performance may not be indicative of future results. Fees are determined based on: age, health, gender, smoker/non-smoker. Returns will be materially lower due to charges. The calculations above are WPN's views based on the data of the S&P 500. Insurance products offered through Wealth Planning Network Inc. are issued by various third-party carriers.

CASE STUDY: CASH GROWTH

Premium Finance (Structured for Future Tax-Free Income)

CASE STUDY: CASH GROWTH
Premium Finance (Structured for Future Tax-Free Income)

EXECUTIVE SUMMARY

A client who desires to capitalize on the arbitrage between low interest rates and secure a predictable rate of growth in a properly structured insurance product.

THE CHALLENGE

A client has a novice understanding of the complex world of financed life insurance, the lending opportunities, and proper policy structure that allow the program to succeed.

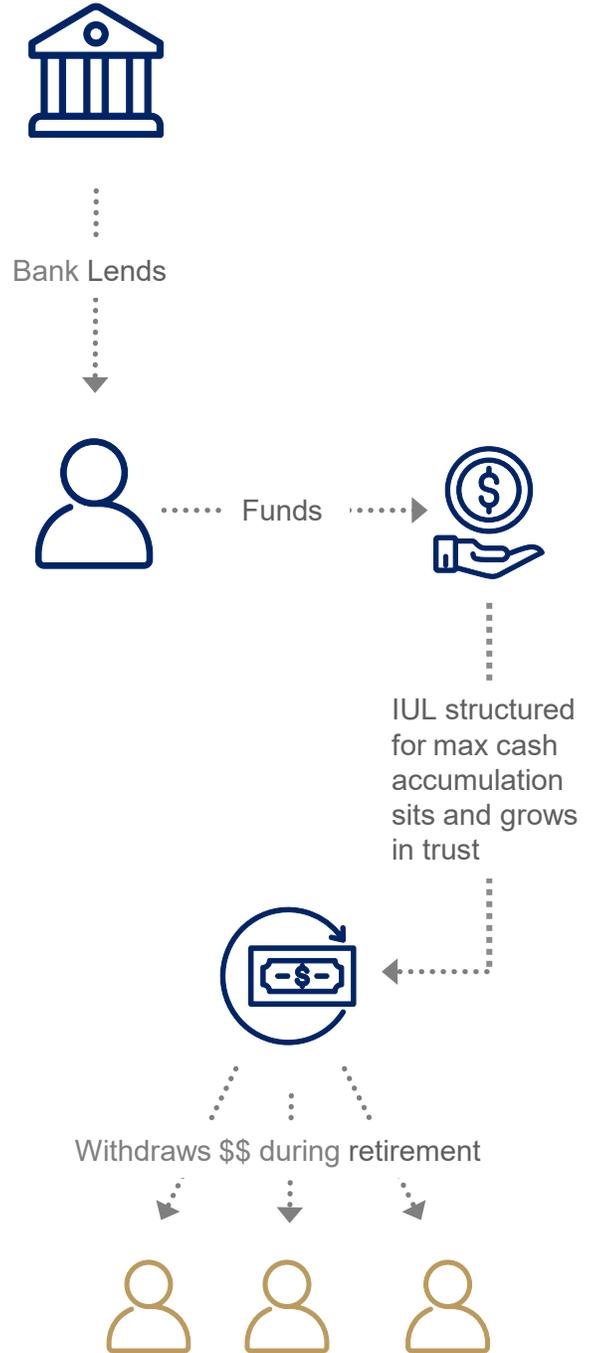
THE SOLUTION

WPN underwrites the client for a significant amount of life insurance with an annual premium of \$1.2 Million. The policy is used as primary collateral (95% LTV) and minimal additional outside collateral is required. Client pays interest expense annually and by year 15 to 20*, policy cash value grows sufficiently to pay back the loan and leave client with over \$5 million of equity.

THE RESULT

Client has significant equity in the policy after loan paid back for tax free access during lifetime. Client can use cash flow during lifetime or pass on death benefit to heirs. Overall return on dollars invested into the program between 8-12% after tax net of fees.

*The year in which the bank loan is paid off from the policy's cash value will be depended on performance of the policy.



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There are risks inherent in any borrowing strategy, including life insurance premium financing. Prospective investors should fully understand and consider these risks before engaging in a premium finance transaction with a bank or financial institution. These risks include but are not limited to: (i) interest rate fluctuation risk, (ii) market volatility risk, and (iii) the possibility of collateral shortfall, which may lead to a margin call. Insurance professionals and financial advisors should review these risks with prospective clients in order to craft suitable financing plans that are tailored to each individual client's facts and circumstances. Before deciding whether to finance the acquisition of high-value life insurance by borrowing, we encourage any prospective client or investor to discuss your objectives with your financial advisor as well as your legal and tax advisors. This document is not intended to give legal or tax advice.

The material discussed in this advertisement is not intended to project or predict the success or suitability of any premium financing strategy. Any discussion or illustration of projected bank loan payoff and income stream from policy loan(s) and withdrawals will vary based on the policy & loan performance. Actual results will vary depending upon age, insured health rating, premium amount, death benefit amount, insurance policy, loan amount, interest rate, performance and other variables. Past performance is not indicative of future results.

The benefits and values shown in any proposal, case study, or hypothetical are not guaranteed. This information is for illustration and comparative purposes only. Actual results will vary depending upon age, insured health rating, premium amount, death benefit amount, insurance policy, loan amount, interest rate, performance and other variables. This proposal is hypothetical and should not be used to project or predict investment or performance results. Financing life insurance premiums has certain inherent risks including interest rates, financial market performance, credit availability, insurance company ratings and stability. Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event.

Wealth Planning Network has not given any legal or tax advice related to the premium financing arrangement, and assumes no responsibility for the obligations, demands, losses, or liabilities, including attorney fees, resulting from the premium financing arrangement.