ADVANCED PLANNING

Premium paying strategies for high-net-worth clients

BEFORE YOU PREPARE A COMMERCIAL PREMIUM FINANCING STRATEGY

Prudential's Advanced Planning team must review all commercial premium financing strategies prior to the submission of a life insurance policy application. Please complete and submit Prudential's Premium Finance Submission Form to get your case started.

ENHANCE WEALTH, REDUCE TAXES

When affluent clients need to purchase a large amount of life insurance, a number of different strategies can be employed to pay the premiums. In addition to protection coverage, these strategies can help to enhance wealth and reduce taxes.

Such clients may benefit from a premium paying strategy if they:

- In general, are age 55 or older
- Have substantial assets valued in excess of the lifetime exemption amount
- Don't want to use the lifetime exemption amount (or don't have any left)
- Want to minimize gift taxation
- Understand leverage and arbitrage

With a range of approaches that fall under the umbrella of premium paying strategies, you have a good opportunity to pivot to a different idea when a client has an objection, ultimately enabling you to find the solution best tailored to their individual circumstances. The following table will help you gain a better understanding of when each solution is most likely to be used.

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Key Consideration	Intra-Family Loans	Asset Sale to an Irrevocable Grantor Trust	Commercial Premium Finance
The strategy in a nutshell	Client loans money to an irrevocable grantor trust. Trustee invests cash and uses the income from the investments to pay premiums	Client sells income-producing (and ideally highly appreciating) assets to an irrevocable grantor trust. The trustee uses the income to pay premiums. An interest-only promissory note may be tendered to effect the sale	Client borrows money from a third-party commercial lender to finance the policy premiums for a life insurance policy
Type of client	Liquid (Substantial cash or cash equivalent assets on hand)	Illiquid (Substantial non-cash assets)	Wants to retain control over assets to benefit from appreciation and/or income
Attractive solution in a low-interest-rate environment	Yes	Yes	Yes
Gifting implications	None	Potentially[1]	Potentially[2]
Requires liquidation of taxable assets to pay large premiums	No	No	No
Involves a third-party (commercial) lender	No	No	Yes
Interest rate determined by	Applicable Federal Rate (AFR)	Applicable Federal Rate (AFR)	Lender determined
Provides a "clean" exit	Yes Loan principal is returned to grantor as repayment	Yes Interest-only promissory note is repaid "in kind"	Yes If sufficient, the policy's cash surrender values may be used to repay the loan balance[3]
Chief client objection	Loan is often substantial	Loss of control over the asset	If interest rates rise, the economics may not make sense
Your response to client objection	The loan is only in effect for a specific term and the current low interest rate is locked in	Like the intra-family loan, this arrangement is only for a specified term. The asset can come back to the grantor as a repayment in-kind at the end of the term	Commercial premium financing needs to be actively managed. Other assets can be used to repay the loan if it's determined the economics no longer make sense and the policy's cash values are insufficient
Primary value proposition to client	No gift taxation as a loan is not a gift	Sale to a trust whose income is recognized by the grantor avoids capital gains tax treatment, and the grantor paying all the income tax results in additional wealth transfer benefits. Also, asset values are "frozen" with respect to the estate because future growth will stay in the trust	No need to liquidate taxable assets to pay large policy premiums

PRUDENTIAL CAN HELP YOU CLOSE YOUR NEXT CASE

Premium paying strategies are a way for you to broaden your market opportunities and better serve your high-net-worth clients. Prudential's Advanced Planning team can help you with your Premium Paying Strategies and more. To discuss the strategies or the situation of a specific client, call us at 800-800-2738, option 4.

Important considerations for Commercial Premium Finance:

- Variable life insurance is not appropriate for a commercial premium financing arrangement.
- Many factors can affect a premium financing strategy, including the potential for higher cost of insurance changes, lower policy crediting rates, and increasing premium loan interest rates. Each could upset the economics of the strategy.
- Clients often must qualify for annual loans. Failure to qualify for a new loan may require out-of-pocket premiums to keep the policy in force and could derail the intended goal of the strategy.
- Understand leverage and arbitrage.

[1] Unless the irrevocable trust is established and funded, it is recommended to "seed" or gift to the trust an amount equal to at least 10% of the value of the asset. This amount is considered a gift. However, it provides the transaction with economic substance.

[2] If the grantor pays the loan interest, it is considered a gift.

[3] An alternative repayment strategy will need to be articulated up front.

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