

A loan to finance life insurance
August 27, 2009
The Record – Ask The Experts

Q. My net worth has decreased substantially due to recent economic conditions. Does premium financed life insurance offer a way to increase the value of my estate?

The recent economic downturn has caused many people to re-evaluate their net worth and their financial and estate planning. Premium financed life insurance can offer business owners and high net-worth individuals a way to purchase wealth-replacement life insurance without significant out-of-pocket costs.

Premium financing involves purchasing a large life insurance policy and using a loan or loans to pay the premiums, much the way people borrow to purchase real estate. A number of lenders offer these types of loans. This strategy may be appealing to those whose assets are illiquid or producing rates of return higher than the cost of borrowing. The loan can be repaid during your lifetime or when the policy's death benefit is paid. The life insurance policy typically is owned by an insurance trust prepared by an estate planning attorney and providing significant tax benefits.

As a simplified example, a healthy 65-year-old male might obtain \$5 million of life insurance coverage with a premium structure that requires 10 annual payments of \$145,000. The individual borrows the funds to make the premium payments. The total borrowed is therefore \$1.45 million, plus interest. At that point, the individual can payoff the loan and have \$5 million of paid-up insurance for

the rest of his life. There are many other options available to tailor a plan to an individual's objectives.

While premium financing can offer significant benefits, it is also a complex strategy with a number of risks. In order to successfully employ this technique, you should work with experienced advisers to carefully analyze, among other things, interest rate risk, policy features and guarantees, loan covenants, collateral requirements and tax considerations.

Steven Saraisky is an attorney in the tax, trusts and estates department of Cole, Schotz, Meisel, Forman & Leonard PA, the largest law firm in Bergen County. He can be reached at ssaraisky@coleschotz.com or 201-525-6259. This information is not intended as legal advice, which can only be given after the attorney understands the facts of a particular matter and the goals of a client.

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