



# PREMIUM FINANCE

## Using What You Have to Get What You Need

Purchasing life insurance is an ideal way to help you provide a lasting legacy to your family or favorite charity. However, the idea of liquidating hardworking investments in order to pay the premiums of a life insurance policy is never an appealing one. The good news is that there is a way to get the quality Transamerica life insurance you need by leveraging into a loan and keeping your assets hard at work for you. It's known as premium financing, and Transamerica has the expertise to help you find just the right provider to allow you to take full advantage of it.

### The Challenge: Large Life Insurance Needs Mean Large Premiums and Potential Gift Tax Liability

You've worked hard to achieve financial success, accumulating a sizeable estate that you hope to leave as a legacy to your loved ones. You recognize the vital role that life insurance plays in helping you achieve this goal. However, you also know that adequate life insurance coverage for a high-net-worth individual tends to require significant premium payments. Furthermore, by owning a policy in a Legacy Trust that is set up as an Irrevocable Life Insurance Trust (ILIT), you will be able to shield the policy's death benefit from estate tax. Your annual "gifts" of premiums to that Legacy Trust may be subject to a gift tax. And the more your money is taxed, the less there is to leave to those you care about most.

### The Strategy: Borrow Premiums from a Third-Party Lender

If the idea of liquidating assets to buy a life insurance policy doesn't appeal to you, you may consider financing the premiums through a third-party lender. Here's how it would work: Your Legacy Trust trustee, rather than you personally, can apply for the loan using the policy itself and some other asset(s) as collateral. Because the lender will advance the funds to the insurance provider to pay the premium, the trustee will only be responsible for paying the interest on the loan. In other words, you will not need to make annual

gifts to the Legacy Trust to cover the premium. Instead, you need only make annual gifts to the Legacy Trust in the amount of interest due, which will likely be less than the cumulative premium.<sup>1</sup> Smaller gifts mean a potentially smaller amount of gift tax. Once it comes time to repay the loan premium, you have several options, including simply allowing the repayment to come from your beneficiaries' proceeds.

### Case in Point

Michael, aged 65

- Life insurance need established at \$5,000,000\*
- Annual premium of \$104,948 for non-financed premium
- Annual premium of \$172,774 for financed premium; guaranteed; with return of premium death benefit
- Loan interest rate assumed at 6%

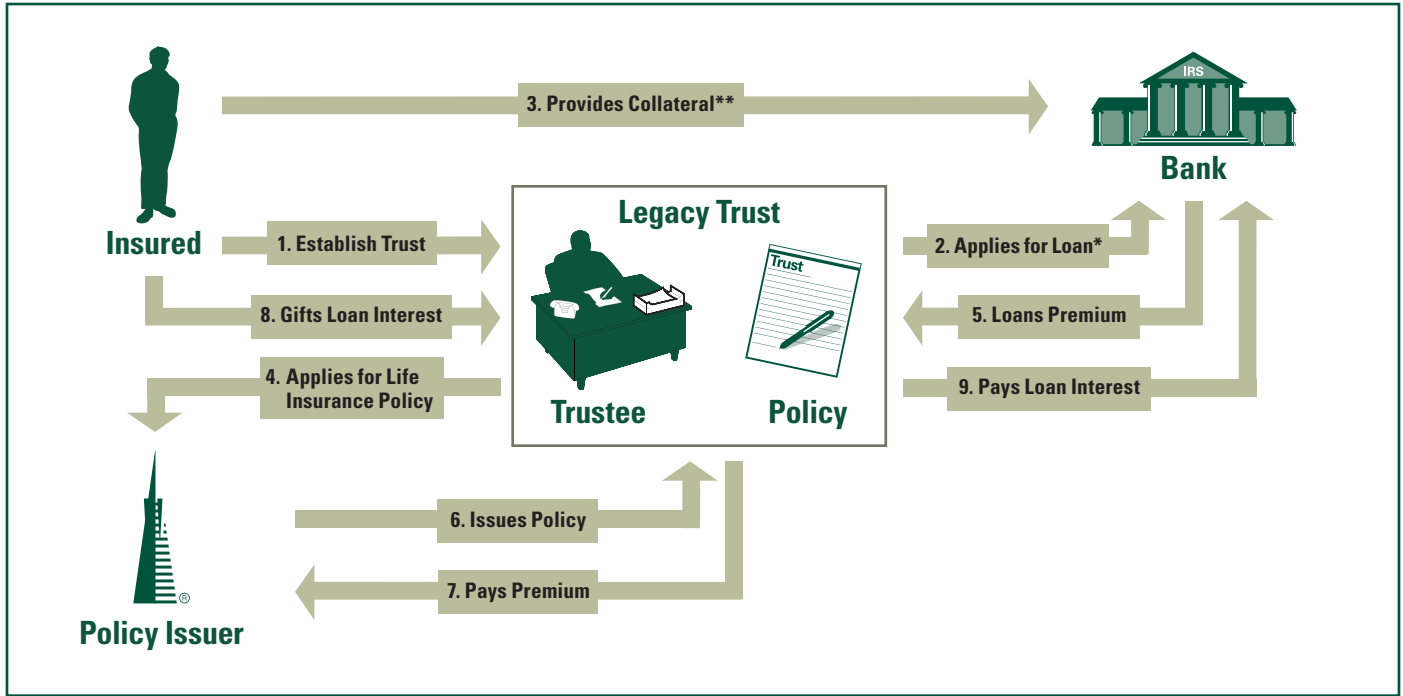
\* Male 65, Preferred Non-Tobacco, TransACE® policy

Year 10 Cumulative Results		
Policy cost by not financing	Interest cost by financing	Difference in paying interest vs. paying premiums
\$1,049,480	\$570,154	\$479,326

<sup>1</sup> Loan interest in some future year or years may exceed the cost of premiums in those years. However, the cumulative outlay for interest may generally be less than the cumulative outlay for premiums.

**Nuts & Bolts: How Does Premium Financing Work?**

Using premium financing to purchase life insurance through your Legacy Trust is a smart strategy for getting the benefits of life insurance without jeopardizing your assets' ability to earn interest. The following diagram demonstrates exactly how the premium financing process works.



\* Process requires that the insured provide among other things the following documents: (1) tax returns for past three years; (2) personal financial statements; (3) brokerage statements if any. The reason for this is due to the fact that the insured/grantor is providing the collateral on behalf of the trust which is borrowing the premiums. Therefore it is necessary for the insured/grantor to have adequate assets and a strong balance sheet to qualify for the loan.

\*\* Typically, cash surrender value of a life insurance policy will serve as primary collateral for the loan. However, new policies may not have much cash surrender value in early years. So, you may need to make up for any shortfall between the loan balance and cash surrender value by pledging some other assets as collateral. Acceptable forms of collateral generally include cash, cash equivalents, publicly traded stock, other life insurance cash surrender value, letters of credit and personal guaranties.

TransACE® is a nonparticipating, flexible-premium universal life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy Form #1-12611107, Group Certificate #2-72336107 for certificates issued under a group policy issued to the Rhode Island National Consumer Protection Trust. Policy form and number may vary and this policy may not be available in all jurisdictions. In most states, in the event of suicide during the first two policy years, death benefits are limited only to the return of premiums paid. In Missouri, suicide is no defense to payment of benefits unless the Company can show that the insured intended suicide at the time of application for coverage.

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