

# CAPITAS FINANCIAL

## Premium Financing

### OVERVIEW

In the wealth transfer markets, life insurance professionals encounter a number of challenges. The lack of liquid assets to meet wealth transfer costs is one challenge that, with proper planning, can be avoided. Large estates of wealthy individuals are generally subject to transfer and income taxes at death. After all non-insurance estate planning techniques have been employed, many wealthy individuals determine that life insurance can be an effective way to reduce the impact of transfer taxes. However, these wealthy individuals may be reluctant to convert high-performing investment portfolios or business assets into cash to purchase life insurance, creating a liquidity challenge. A premium financing plan can be designed specifically to create the necessary estate liquidity while preserving estate assets.

### POTENTIAL OPPORTUNITY

Premium financing offers your clients an alternative method of paying life insurance premiums. Rather than using or liquidating current assets, the funds needed to pay premiums are borrowed from a commercial lender so that the client's investment portfolio or other assets can remain intact.

#### Potential Advantages

- Depending on the loan interest rate and the loan program, possibly reduced current net out-of-pocket cost for the needed life insurance coverage.
- Little or no impact on current investment portfolio.
- Potentially favorable gift tax consequences for a number of years.

### CLIENT PROFILE

- Needs personal life insurance for estate planning or business needs.
- Has significant wealth including highly appreciated assets.
- Doesn't find traditional methods of paying for life insurance appealing.
- Would like to purchase life insurance without liquidating other investments or otherwise changing their normal cash flow.
- May presently have trust owned life insurance and would like to reduce annual gifting requirements or save having to pay possible gift taxes in order to purchase the life insurance their estate requires.
- Is interested in the most tax efficient method of purchasing life insurance in order to benefit their heirs with little to no out-of-pocket outlay.

- Is willing to accept some risk in order to retain capital that can continue to be invested.

### THINGS TO CONSIDER

- Available to trusts, partnerships, corporations and, on a limited basis, to individuals.
- Annual premiums are typically in excess of \$100,000, and net worth is generally at least \$5 million.
- The insurance policy is often owned by an Irrevocable Life Insurance Trust.
- Universal life, Indexed Universal, Survivorship Universal life, and Whole Life policies are the available life insurance products. Product performance may not be guaranteed and may impact the success of this strategy.
- Need to qualify annually for the loan. The lending institution could refuse to make an additional loan or demand repayments before a death claim is made.
- Must meet the collateral requirements of the lender.
- Must have a planned strategy to repay the debt in the future from sources other than the policy itself.
- Market fluctuations may affect loan interest rates and could make the strategy less attractive.
- Loan interest to purchase or carry life insurance is generally not income-tax-deductible.

Capitas Financial, Inc. (Capitas) provides life insurance marketing support and case management services to Merrill. Capitas is not an affiliate of Bank of America Corporation.

The information cannot be relied upon for the avoidance of taxes and/or IRS penalties. This material is not intended to provide tax, accounting or legal advice. As with all matters of tax or legal planning your client should consult their tax or legal counsel before implementing any financial, tax, or estate planning strategy.

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any clients or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing a client's retirement savings. Clients seeking information regarding their particular investment needs should contact a financial professional.

Guarantees are based on the claims-paying ability of the issuing insurance company and do not apply to the underlying investment options. They are not obligations of, nor backed by, the broker/dealer and/or insurance agency selling the policy, nor by any of their affiliates, and none of them makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

**Investing involves risk including possible loss of principal.** Information is current as of the date of this material.

Any opinions expressed herein are from a third party and are given in good faith, are subject to change without notice, and are considered correct as of the stated date of their issue. This material does not take into account a client's particular investment objectives, financial situations, or needs and is not intended as a recommendation, offer or solicitation for the purchase or sale of any security or investment strategy.



20220926MRKPF  
ML24-005763

FOR FINANCIAL ADVISOR USE ONLY

Not a deposit	Not FDIC-insured	May go down in value
Not insured by any federal government agency		
Not guaranteed by any bank or savings association		