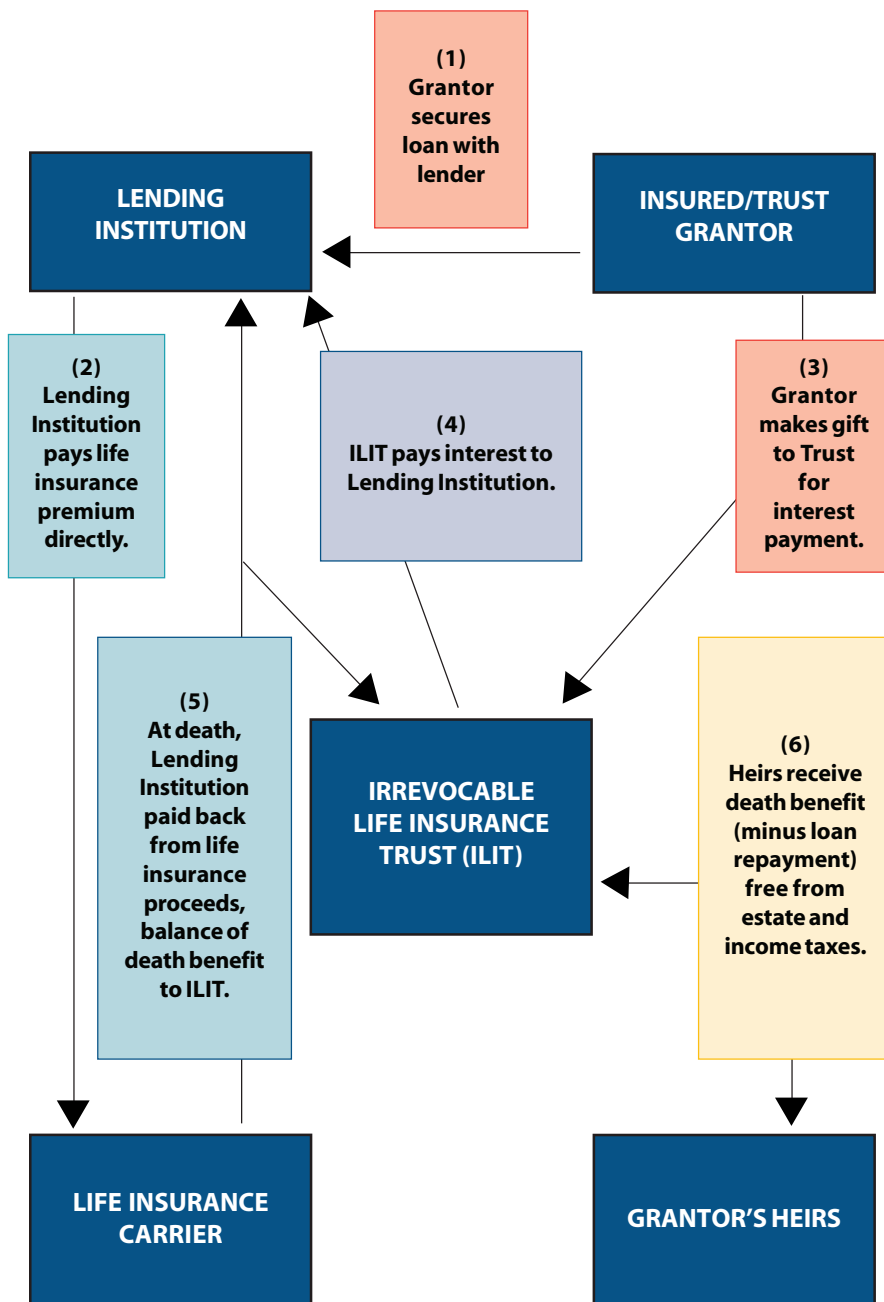


Life Insurance Premium Financing

(Utilizing an Irrevocable Life Insurance Trust)

Client Profile—

High net-worth individual with need for substantial life insurance coverage; does not have (or does not want to use) the liquid capital needed to pay the premium on a life insurance policy. Typical minimum net worth of \$5,000,000-10,000,000 needed to participate in these programs. Collateral required, but can be offset by the cash value in policy.



1. The Insured secures a loan from a lending source. Assets would have to be pledged as collateral. The loan is typically renewed on a yearly basis with re-qualification. The loan rate is usually based on LIBOR (London Interbank Offered Rate) plus a spread of 175 to 300 basis points.
2. The Lending Institution pays the life insurance premium directly to the life insurance carrier providing the coverage.
3. The year-to-year interest on the loan is gifted to the Trust by the Grantor. This amount represents a taxable gift to the trust, but is substantially less than the actual premium that would have to be paid.
4. The ILIT pays the interest to the Lending Institution.
5. At death, a portion of the death benefit would be used to pay off the loan to the Lending Institution. This loan (or a portion of it) can be paid off earlier if there are sufficient funds in the trust. The balance of the death benefit is received by the ILIT. Often an increasing death benefit is used in the life insurance policy design so that the death benefit is equal to a set amount plus the cumulative premiums paid. That way the loan can be paid back, leaving the original death benefit amount for the ILIT.
6. Beneficiaries of the ILIT would receive the death benefits free from any estate or income taxes after the Lending Institution is paid back for the loan amount.