Keep Assets In Place With Insurance Premium Financing

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You know better than anyone how much you depend on the liquidity of your assets to help maintain your lifestyle. Life insurance — whether you love it or hate it — may offer benefits to people seeking to manage an estate or financial plan that involves the optimal management of estate tax obligations while keeping that liquidity in place.

The Advantages Of Insurance Premium Financing

Depending on your anticipated estate tax liability and the amount and nature of the death benefits you want to pass along to heirs, insurance may be a necessary part of your financial plan. Policy premiums can significantly impact your liquidity if paid out of pocket. In many cases, these premiums can exceed $500,000 per year. That's where insurance premium financing comes in — it's one of the most cost-effective strategies to help pay for these high premium policies that are used to protect your assets, while creating estate liquidity. Instead of funding premium payments by liquidating investments and incurring capital gains tax, or using existing capital to pay the premiums, a premium financing plan can help you keep current assets in place.

> **Life insurance premium financing — whether using whole life or indexed universal life insurance — can provide an efficient way to fund the liquidity needed for the future. In addition, the death benefit of a policy can help supplement lost income, pay an estate tax liability, or cover other estate expenses.**

Typical Ways This Strategy Is Used

Generally, people who purchase life insurance take comfort in knowing that they've planned for the unexpected, developed an estate planning strategy or helped transition a closely held company to the next generation. Insurance premium financing is a powerful, tax-efficient way to utilize credit in your wealth planning process, giving you the ability to provide future benefits for generations to come without jeopardizing your current cash flow situation or liquidating assets. There are several ways to use this strategy, including:

Estate Planning

Utilizing insurance premium financing allows an estate to maintain its assets rather than drawing on existing capital to pay the premiums. Borrowers like this option because they oftentimes can invest their capital for a higher return than the cost of financing without having to liquidate assets (e.g., real estate, investments, fine art and collectibles) at an inopportune time.

Financing the premiums rather than paying them out of pocket is a popular strategy for high-net-worth estates to transition existing investment holdings or appreciated assets to the next generation. Most insurance policies used as collateral for insurance premium financing are owned by an Irrevocable Life Insurance Trust (ILIT) created and managed by the trustees of the estate. The ILIT buys and owns the insurance policy. Upon the deaths of the insured, the policy's death benefit proceeds are used to pay off the premium finance loan and then disbursed to beneficiaries to settle estate taxes and make other cash distributions according to the terms of the ILIT.

For example, let's say you want to leave your real estate holdings to your daughter or son. However, they have their own careers, and don't want the headaches of managing your properties. You could structure a life insurance policy to cover any debt on the real estate, taking advantage of insurance premium financing. When your child inherits the policy's death benefit, they could pay off the real estate debt and sell the real estate in its entirety unencumbered by any mortgage. In the alternative, the beneficiaries could take more time selling the properties piece by piece, and not have to resort to a "fire sale."

Succession Planning

The act of transitioning ownership of a business can be a complex process. Business owners, especially family-owned businesses, can use financed life insurance policies as a way to transition ownership from relatives, siblings, or one generation to the other. Financing the premium can be an affordable option to achieve this conversion as well as offering peace of mind throughout the transaction. Talk with your advisor about the estate tax considerations and how implementing an insurance premium finance strategy now could help avoid levering up with debt in the future.

Alternative Investment Strategy

For young adults, insurance premium financing can be used as an alternative investment strategy. Perhaps you contributed the maximum amount to your Individual Retirement Account (IRA) and 401(k) contributions and are seeking an alternative to investing in the stock market. You could buy a whole or indexed universal life insurance policy that accumulates cash value. By doing this at a young age, the policy is more affordable (likely you have fewer medical issues at this point in your life.) Financing the insurance premium would keep your cash flow and assets liquid until you reach retirement age, when the cash value on the policy can be used as an alternative investment to supplement your income.

Of course, there are other scenarios and ways an insurance policy can be structured and premium financing set up, and each is customized for your unique financial situation.

Next Steps

There are important considerations pertaining to insurance premium financing and how it can benefit your overall financial plan. Contact Commerce Trust today for more information about how our team of advisors can help with this unique and personalized wealth planning strategy.

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Michael leads the insurance premium finance team at Commerce Trust. He works with clients alongside their assigned private bankers, private client advisors and commercial relationship managers to introduce and structure insurance premium financing options to meet their unique liquidity needs. Michael joined Commerce Trust in 2020 and has close to 20 years' experience in insurance premium financing and commercial lending. He earned a bachelor's degree in marketing from Pittsburg State University and graduated from the Graduate School of Banking at Colorado. Michael is active in the community having served on the business council of Nelson-Atkins Museum of Art and the boards of Big Brothers Big Sisters of Greater Kansas City and Young Bank Officers of Kansas.