Premium finance

Leveraging assets to finance a life insurance policy

What clients are a good fit?

- High-net-worth individuals, corporations, trusts and partnerships in need of substantial life insurance coverage
- Business owners and individuals with assets tied up in their enterprise or profitable investments
- Highly compensated individuals who have maxed retirement contributions

What are they concerned about?

- Finding tax-efficient ways to protect, build and transfer wealth
- Employing business capital for existing or future use
- Being able to supplement a future retirement income shortfall
- Having to liquidate assets tied up in their business or profitable investments
- Facing capital gains tax triggered by selling off assets to pay premiums

How premium finance works

Client **borrows funds** from a third-party lender to pay life insurance premiums.

Lender **makes premium payments** to Lincoln.

Client **pays interest on the loan** to the lender. Generally, interest must be paid as incurred. Accrual of interest is subject to lender approval and Lincoln guidelines.

Client will be required to **post collateral.** A high early cash value rider on the policy can be used toward collateral.

Lender is repaid with policy distributions, other assets or both. Distributions can be taken through policy loans and/or withdrawals.[1]

At death, the benefit **transfers to the beneficiary or lender** if loan is not repaid.

Things to consider

- Rising interest rates on the loan may increase out-of-pocket costs
- Interest rate crediting fluctuations can mean the policy underperforms and policy cash values may not accumulate as illustrated
- Lower policy values could cause a delay in a loan repayment from the policy
- Lower cash values could also result in additional collateral requirements
- If the policy is or becomes a Modified Endowment Contract (MEC), there are potential tax consequences

Get all the answers and resources you need in **the Premium Finance Submission Guide:**

www.LFG.com/premiumfinance

[1] Distributions are taken through loans and withdrawals, which reduce a policy's cash surrender value and death benefit and may cause the policy to lapse. Loans are not considered income and are tax-free. Withdrawals and surrenders are tax-free up to the cost basis, provided the policy is not a modified endowment contract (MEC).

Have premium financing questions or need help with case design?

Contact: PremiumFinance@LFG.com

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LCN-6107639-111723
PDF ADA 12/23 **Z12**
Order code: LIF-PREM-FLI004

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