INSIGHTS FROM ADVANCED MARKETS

Global Atlantic FINANCIAL GROUP

Global Accumulator

Premium Finance Case Study

Background:

Many high net worth individuals and business owners are comfortable leveraging their assets. They may have even used financing and leverage to help create their wealth. Premium Finance may permit them to leverage their current assets and the life insurance policy's cash surrender value to obtain the coverage they need.

It is also common for successful people to earn high returns on their assets—be it their business, real estate or investments. Premium finance allows their money to keep working and perhaps prevents them from having to liquidate assets that are in unfavorable tax or liquidity positions.

Case Study:

Edward, 45, is an executive at a technology firm he started several years ago. He earns approximately $750,000 per year and has accumulated a net worth of $10M. He has a variety of life insurance needs including estate liquidity, income replacement and legacy planning. He has decided to purchase $10M of insurance. However, most of his assets are tied up in his business and highly appreciated securities. Liquidation of his business is not an option, and liquidation of his securities will result in substantial capital gains taxes. Edward's agent suggests financing the premium outlay as an alternative.

The following supplemental illustration assumes the current non-guaranteed crediting rate of 5.84% in the 1 yr point to point and Level 2 Wellness for Life Rewards®. Please refer to a Basic Illustration for the corresponding guaranteed values.

Year	Cumulative Financed Premium	Assumed Loan Interest Rate	Interest on Financed Amount	Loan Repayment	Owner's Annual Outlay	Cash Surrender Value (Non-Guaranteed)	Borrower's Equity (Collateral Required)	Net Death Benefit - After Loan Repayment - (Non-Guaranteed)
1	$412,000	4%	$16,480	$0	$16,480	$90,141	-$321,859	$9,925,741
2	$824,000	4%	$32,960	$0	$32,960	$462,949	-$361,051	$9,870,043
3	$1,236,000	4%	$49,440	$0	$49,440	$855,702	-$380,298	$9,834,289
4	$1,648,000	4%	$65,920	$0	$65,920	$1,269,387	-$378,613	$9,819,467
5	$2,060,000	4%	$82,400	$0	$82,400	$1,728,080	-$331,920	$9,849,654
6	$2,472,000	4.5%	$111,240	$0	$111,240	$2,217,146	-$254,854	$9,910,213
7	$2,884,000	4.5%	$129,780	$0	$129,780	$2,738,684	-$145,316	$10,003,244
8	$2,884,000	4.5%	$129,780	$0	$129,780	$2,880,297	-$3,703	$10,128,351
9	$2,884,000	4.5%	$129,780	$0	$129,780	$3,029,799	$145,799	$10,261,346
10	$2,884,000	4.5%	$129,780	$0	$129,780	$3,187,762	$303,762	$10,402,802
11	$2,884,000	5%	$144,200	$0	$144,200	$3,409,540	$525,540	$10,608,074
12	$2,884,000	5%	$144,200	$0	$144,200	$3,644,932	$760,932	$10,826,959
13	$2,884,000	5%	$144,200	$0	$144,200	$3,894,915	$1,010,915	$11,060,435
14	$2,884,000	5%	$144,200	$0	$144,200	$4,160,536	$1,276,536	$11,309,549
15	$0	5%	$0	$2,884,000	$0	$1,404,889	$1,404,889	$11,421,395
16	$0	5%	$0	$0	$0	$1,558,075	$1,558,076	$11,558,076
17	$0	5%	$0	$0	$0	$1,703,906	$1,703,906	$11,703,906
18	$0	5%	$0	$0	$0	$1,859,299	$1,859,299	$11,859,299
19	$0	5%	$0	$0	$0	$2,024,871	$2,024,871	$12,024,871
20	$0	5%	$0	$0	$0	$2,201,232	$2,201,232	$11,847,065
21	$0	5%	$0	$0	$0	$2,390,649	$2,390,649	$11,660,646
22	$0	5%	$0	$0	$0	$2,594,609	$2,594,609	$11,465,197
23	$0	5%	$0	$0	$0	$2,814,887	$2,814,887	$11,260,282
24	$0	5%	$0	$0	$0	$3,051,837	$3,051,837	$11,045,440
25	$0	5%	$0	$0	$0	$3,306,961	$3,306,961	$10,820,192

Case Design:

- Edward borrows funds from a bank to pay premiums in the amount of $412,000 for 7 years, or until age 52.
- The total amount of the loan (and also premiums paid) is $2,884,000.
- The lender has a collateral assignment on the policy in order to recoup the loan balance.
- Edward is required to post outside collateral with the lender for the difference in cash surrender value and the total financed amount ($321,859 in first year).
- The loan will initially have a rate of 4% and is projected to grow to 5% by the 11th year.

Projection:

- In this illustration, the loan interest is assumed to be his only out-of-pocket outlay and could possibly be less over time than paying the premium outright.
- The policy is designed with the increasing death benefit option. This is done so the net death benefit after repaying the lender is close to the initial death benefit of the policy.
- Between age 46 and 60, Edward is projected to pay loan interest totaling approximately $1.46M. The annual interest payments are projected to cost between $16,480 and $ 144,200 (at a loan interest rate growing from 4% to 5%).
- At age 60, or policy year 15, Edward takes a policy loan in the amount of $2,884,000 to pay off the full loan balance.
- At age 70, or policy year 25, on a non-guaranteed basis, the illustration projects a non-guaranteed cash surrender value of $3.3M and a non-guaranteed death benefit of 10.8M.

Benefits of Premium Financing:

- Minimal or no gift tax
- Use of leverage through borrowing at lower rates than existing assets are earning
- Maintaining control of existing assets

Important Considerations for Premium Financing:

- Varying and lower than expected crediting to the policy could increase collateral requirements, lower the net death benefit and cause the policy to lapse. Those conditions could also prevent the timely repayment of the loan, as projected in the illustration.
- Loan interest is non-deductible.
- There is an interest rate risk as the out-of-pocket outlay could increase if interest rates rise. If loan interest is accrued instead of paid, the loan balance may become unmanageable.

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