

Premium Financing

by Editor

Premium financing is a current marketing concept that is being used by many wealthy individuals requiring considerable life insurance coverage for business planning. Premium financing is a method that funds the purchase of life insurance for an individual who has significant assets, however, either does not have, or does not wish to use liquid capital to pay the premium on a life insurance policy. The individual borrows money to pay the life insurance premiums, and since he has more available capital, as he is not paying the life insurance premiums, he frees up business or personal investment capital that can now be used more effectively for other uses. Commonly, prospects for premium financing represent a minimum net worth of at least \$5,000,000. Assets are pledged as a collateral usually consist of personal assets, and can be offset by the cash value in the policy being financed. Often, the entity borrowing the capital must a partnership, corporation, or trust. Premium financing programs are jointly developed between lenders providing the financing and insurance carriers providing the coverage. At the time of death, a portion of the death benefit is used to pay off the loan to the lender. The loan can be paid off earlier if desired. Premium financing has many benefits. The use of financing for premium payment lowers out-of-pocket costs and potential gift taxes, thus freeing up business or personal investment capital so that it can be put to more efficient use. In addition, premium financing can provide a substantially greater internal rate of return on life insurance policy death benefit paid over non-financed methods.

How Premium Financing Works The premium finance concept is simple your client borrows money to pay life insurance premiums. The actual transaction itself can be quite complex. For that reason it is crucial to involve legal and tax advisors in the process. While each premium finance transaction is unique, every transaction consists of two separate financial instruments; a permanent cash value life insurance policy, and a loan. The process occurs in two steps;

1. **The Life Insurance Policy** The initial life insurance application process is similar to any other life insurance application. The life insurance company will complete medical and financial underwriting to determine if your client qualifies for coverage.
2. **The Loan Application** After the policy is approved, a loan application is submitted to the lender for approval. The lender will review your client's credit and financial status and decide whether or not to make the premium loans.

Once loan approval occurs your client's premium finance case is underway. The documents are then sent to your client's legal counsel to be executed, and the policy is funded. Call JEFF Group today to help you with all your premium financing needs. www.jeffgroupny.com Jeff Group, LTD 14 Penn Plaza New York, NY 10001 Phone. 718.258.0090 Fax. 718.252.0070 Email: info@jeffgroupny.com Web: www.jeffgroupny.com

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