Carry your legacy forward

Private premium financing for ultra-high-net-worth estate planning

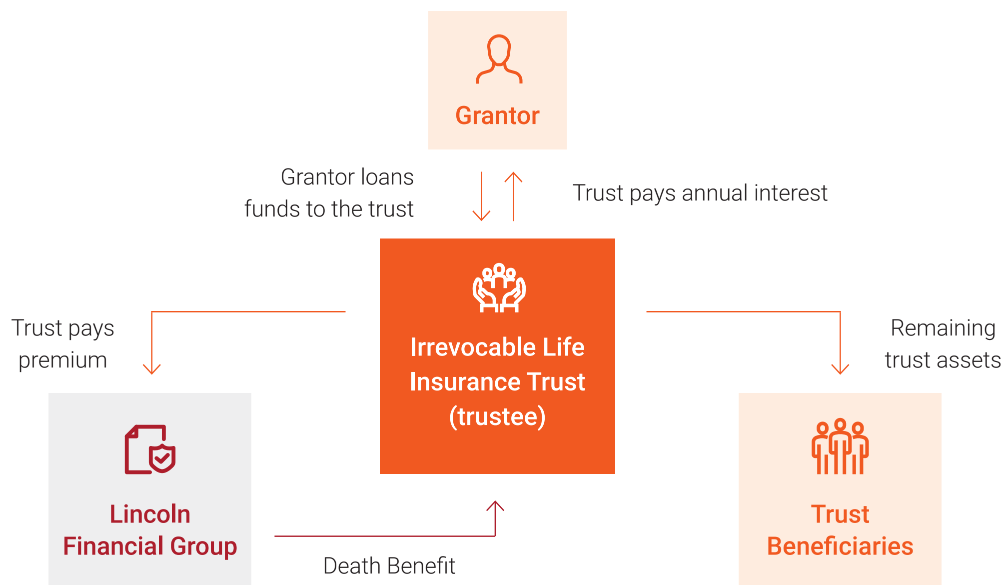
Today's historically low interest rates offer ultra-high-net-worth individuals and families a tremendous opportunity to tap into the estate protection benefits of life insurance using a **private premium financing** strategy.

Private premium financing empowers you to fund an irrevocable grantor trust (IGT) to minimize or eliminate the need for annual or lifetime gifts, and reduce estate taxes. This means you can focus on what matters most — preserving your hard-earned wealth for your heirs and beneficiaries.

How it works

Simply put, an IGT is established to purchase a life insurance policy designed to carry your legacy into the future.

You, as the trust's grantor, loan funds to the IGT to pay life insurance premiums. The IGT covers the premiums — while paying you annual loan interest and principal — and later provides a tax-advantaged death benefit to your beneficiaries.



To fund your IGT and life insurance policy, the two most popular options are:

1. Using proceeds from a one-time lump-sum sale of assets
2. Paying annual premium payments

A one-time sale of investment assets enables you to "lock in" today's low interest rates for any time period, up to your life expectancy. Paying an annual premium allows you to maintain your current cash flow and investment assets.

Let's explore each option to see what works best for you.

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1. One-time sale of assets

The one-time sale of assets strategy is particularly attractive in a time of near-record low interest rates. With an IGT, no gain is recognized on the sale of the assets to the trust. Additionally, all interest on the note received is free from income taxes. The grantor will continue to pay the tax on income generated by the assets.[1]

You'll want to apply this strategy using investment assets producing significant annual cash flows to achieve your ideal outcome. Here's an example:

The grantor sells $10 million of investment real estate to the trust in exchange for a $10 million note. The assets are expected to produce 7% cash flow ($700,000) per year.	Using the July 2020 long-term AFR (1.17%), the trust pays the loan interest of $117,000 annually to the grantor.	This leaves $514,000 of available cash flow each year for life insurance premiums.	The amount of life insurance the $514,000 of premium could produce depends on the age and health of the insured as well as how many years the grantor wants to continue the arrangement.	All income and appreciation in excess of the assumed 7% return remains in the trust outside the grantor's taxable estate.

2. Paying annual premiums

Those looking to maintain current asset levels may prefer to loan needed premiums to the IGT each year with, or without, capitalized loan interest. In this arrangement, the loan would be repaid from the policy's death benefit. For younger individuals and families, using a cash accumulation life insurance policy may make it possible to repay the loan from policy values after 15 to 20 years.

As many ultra-high-net-worth clients have discovered with commercial premium financing, there may come a time when the annual gifting needed to pay the commercial financing loan interest exceeds the available annual exclusions.

However, unlike commercial loans, there's no restriction on capitalizing loan interest on private financing arrangements. Having said that, as the loan balance increases, it may result in less and less of the policy death benefit remaining in the irrevocable trust.

Take action before current laws expire

The low interest rate environment creates exciting opportunities for you to benefit from private premium financing. Private financing also provides flexibility to make gifts by forgiving loan interest and principal, now or in the future. This can help you to take advantage of the current $11.58 million lifetime gift and estate tax exemption. But it's important to act now.

Rates could rise again, and the lifetime estate tax exclusion law expires in 2026. And since 2020 is an election year, estate laws could be rewritten by a newly elected legislature in 2021. Additional pressures include the potential of higher taxes to offset unprecedented federal spending in response to COVID-19.

Speak with your financial professional today. Private premium financing may help you protect the wealth you've built for the next generation.

[1] Most estate planners recommend that when investment assets are sold to the trust, the grantor should make a gift of 10% of the assets and take back a note for 90% of the value of the assets. If that trust already has assets, or another trust is willing to guarantee 10% of the debt, then no seed money may be necessary. Also, if only cash is loaned to the trust, then no seed money is needed.

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