

# Premium financing

A life insurance strategy for high-net-worth clients



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# For clients with high-performing assets, premium financing can have significant financial benefits

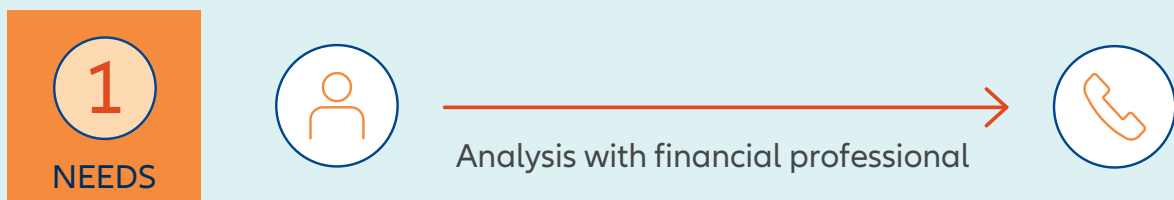
Premium finance is a strategy used by high-net-worth individuals and/or business owners to pay for (or finance) the premium for large life insurance policies. An individual borrows money from a third-party financial institution (such as a bank) to pay premiums to the insurance provider.

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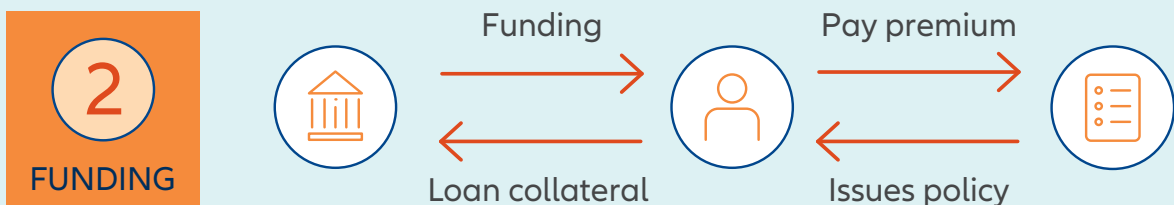
## EXPLORE THIS GUIDE TO LEARN:

- What premium finance is and how it works in relation to life insurance
- Benefits of a premium finance strategy
- Types of clients who may seek a premium finance strategy
- Associated considerations
- How to submit a case with Allianz Life Insurance Company of North America (Allianz)
- FAQs and answers

# In general, premium financing happens in **four phases**:

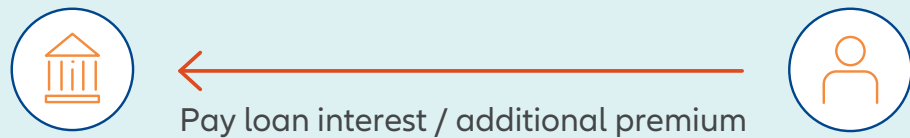


- The individual works with a financial professional and premium finance vendor and identifies the need for life insurance.
- The strategy is determined appropriate for the client's specific situation.
- They work with the insurance company to obtain a life insurance policy. (Life insurance requires qualification through health and financial underwriting.)



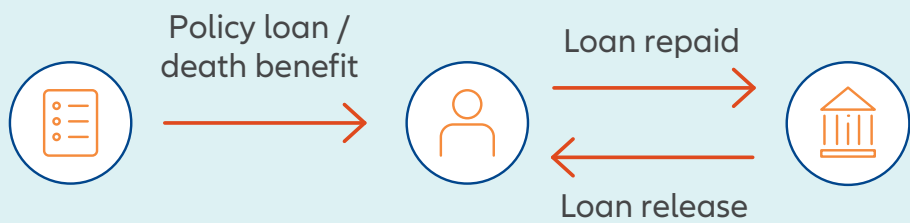
- On behalf of the policyholder, the premium finance vendor works with a lender (bank) to secure funding for the life insurance policy.
- The policyholder uses the loaned money to put the life insurance policy in force, with themselves or a trust as the owner.
- They assign their policy to the lender as collateral for the loaned amount.

**3**  
INTEREST



- Based on the agreement between the policyholder and the lender, the policyholder may be required to pay loan interest and/or additional premium to the lender.
- The policy owner and lender renew annual loans.

**4**  
REPAY



- The policyholder can use their own funds and/or the policy cash value to repay the bank loan; or, upon the policyholder's death, the bank loan is repaid from the death benefit.
- When the policyholder has repaid the bank loan in full, the lender releases the policy assignment; or, if the policyholder dies before paying off the bank loan, their beneficiaries receive any remaining death benefit after the loan is repaid first.

# Benefits of a premium financing strategy

Using premium finance to fund a policy is a strategic choice. It may make sense for those who want to:

- Get the life insurance coverage they need while their cash flow is tied up in a business or other financial vehicles
- Borrow at a benchmark interest rate while their money is in other sources that may yield higher returns
- Follow gift limits often associated with gifts to an irrevocable life insurance trust (or other trust)
- Avoid capital gain taxes that can arise if using liquidated assets to pay premium

## Potential clients

Premium financing may be attractive to those with a need for a large amount of life insurance. Even if they could afford the policy without financing, they may want the strategic benefits that premium financing offers.



### Potential clients may include:

- Individuals, trusts, corporations, or partnerships with a desire or need for a sizeable life insurance policy
- High-net-worth individuals who have illiquid assets and so may not have the cash to pay life insurance premiums
- Individuals looking for the potential to create a future income-tax-free income stream

With proper structure, monitoring, and servicing, premium financing can help clients like these achieve their policy objectives.

# Additional considerations

Along with the potential benefits, premium finance life insurance also comes with additional considerations, including:

- Loan interest risk: Potential rate increase on loans.
- Lender risk: The lender may not renew the annual loan.
- Policy crediting risk: The policy may not perform to expectations.
- Collateral risk: Affording the policy beyond projected collateral.
- Tax risk: Policies with loans that lapse have potential tax implications.

Share these considerations with your client ahead of time to help them avoid unexpected costs to their policy or loan – such as having to liquidate assets or allocate additional cash flow or collateral to support the strategy.

**Clients should consult with their tax advisor to discuss their specific situation.**

# Submitting a case

Allianz reviews the applications you submit for premium financing on a case-by-case basis. We recommend that you and your clients follow the outlined application process to help avoid delays.

Before policy underwriting can begin:

- Ensure proper premium finance forms are complete
- Request a copy of approved lenders



## **Contact your divisional vice president and/or case manager to:**

- Verify client profile criteria
- Run an illustration
- Ensure proper policy design requirements are met
- Ensure you are using an approved premium finance vendor



## **Submit application**

- Submit the completed application via Apply**NOW** or email a PDF version to [lifeinsurance@send.allianzlife.com](mailto:lifeinsurance@send.allianzlife.com)



## **Complete medical and financial underwriting**



## **Initiate funding**

**Remember:** Allianz is not involved in bank loan approval. You are responsible for obtaining the bank loan and completing loan-related paperwork while policy underwriting is in progress.

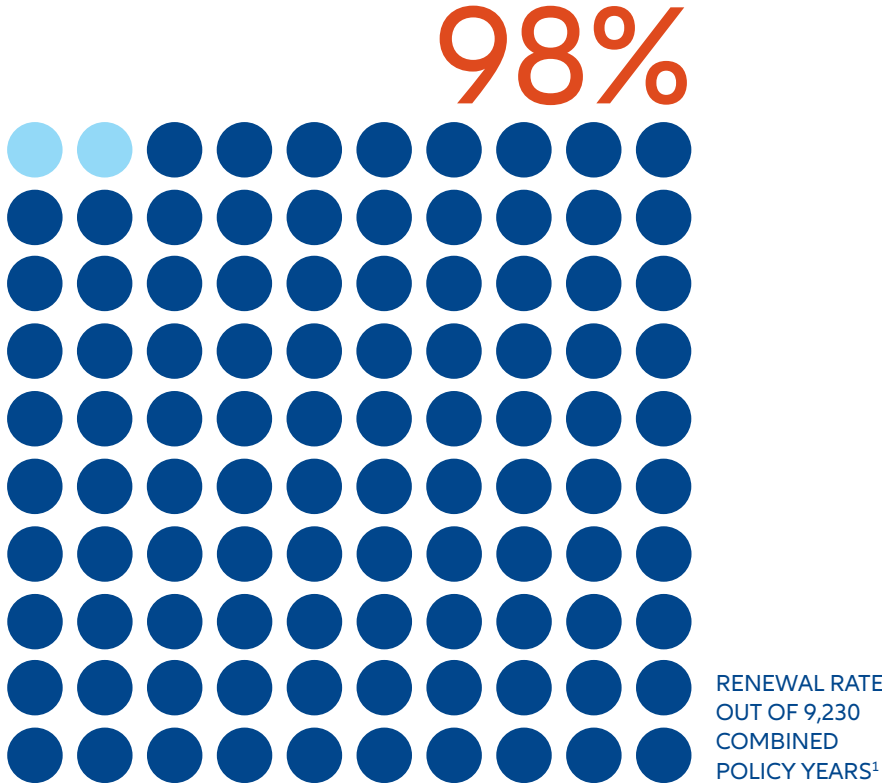


# Allianz premium financing has experience – and results

The Allianz premium-financing program yields strong results. Throughout 9,230 combined policy years, we're proud to uphold a 98%<sup>1</sup> renewal rate on premium-financed policies.

**In addition to our favorable performance history, we also offer:**

- Effective product for premium financing
- Innovative index options that complement premium finance design
- An extensive directory of vetted and approved vendors



<sup>1</sup> Internal statistic as of 6/30/2024. Number of lapses/deaths compared to number of years a policy has crossed over an anniversary.

# FAQs

## Can anyone use premium finance to pay premiums?

No, this strategy is not meant for everyone. The target client has significant assets and income. Because this is a life insurance product, applicants must meet health and financial underwriting requirements.

## How does the policyholder repay the lender?

You and your client will work together to identify an appropriate repayment strategy. Potential strategies may include:

- The policyholder uses any available cash value in the policy via loans or withdrawals to repay the bank loan.
- The policyholder uses outside funds to repay the bank loan. For example, they may choose to sell an asset, such as a business or another investment. Alternatively, they may choose to liquidate any other asset.
- In the event of death, the lender will receive repayment for the loan from the policyholder's death benefit. Their named beneficiary will receive any remaining amount.

## Does Allianz provide any unique riders that may be effective for premium finance?

Our Enhanced Liquidity Rider waives a percentage of the surrender charges, which can help increase the amount of cash value a policyholder can access in the policy's early years. Additional costs may apply at time of issue.



**CONTACT YOUR ALLIANZ® SALES REPRESENTATIVE**  
for additional information on premium finance business.



Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

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# True to our promises so you can be true to yours<sup>®</sup>

A leading provider of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) bases each decision on a philosophy of being true: **True to our strength** as a key part of a leading global financial organization. **True to our passion** for making wise investment decisions. **True to building a culture** where everyone feels welcomed, included, and valued. And **true to the people we serve**, each and every day.

Through a line of innovative products and a network of trusted financial professionals, and with 3.9 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises, we believe we make a real difference for our clients. It's why so many people rely on Allianz today and count on us for tomorrow – when they need us most.

Products are issued by:

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of North America**

PO Box 59060

Minneapolis, MN 55459-0060

[www.allianzlife.com](http://www.allianzlife.com) | 800.950.1962

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

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