Allianz

Allianz Life Insurance Company of North America

PREMIUM FINANCE

Target clients for premium financing

Identifying the right clients and appropriate needs

Premium financing 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, company, or trust borrows money from a third-party financial institution (such as a bank) to pay premiums to the insurance provider.

Premium financing can be an attractive option for clients who:

- Have substantial life insurance needs but would prefer to avoid liquidating high-performing assets, and resulting taxable income, in order to pay the premiums.
- Have substantial life insurance needs but want to avoid using their lifetime gift tax exemption to pay the premiums.
- Are insurable at standard rates or better.
- Satisfy the carrier's underwriting guidelines.
- Meet these additional Allianz requirements:
  - Are between 18-60 years old
  - Have a net worth of $5 million or higher

  (**Note:** Allianz will consider juveniles and rated cases via exception; small platform cases may have lower income and net worth rules. Please review the Allianz guidelines in ASI-466.)
- Have sufficient liquid assets (e.g., marketable securities) to pledge as collateral if required.

  Note: While the loan will be secured by a collateral assignment on the policy itself, there may be a need for the client to pledge additional personal assets as collateral, especially in the early years. Lenders tend to prefer assets that are liquid, such as marketable securities. If the client does not have sufficient liquid collateral, additional costs may be required to obtain a letter of credit.
- Premium financing is not appropriate for clients who cannot afford the premium.

Situations that may be a good fit

Wealth transfer, inheritance, or estate planning issues

Individuals and families who are considering life insurance for the following reasons may be candidates for premium financing:

- To provide estate liquidity to pay federal estate taxes and/or state inheritance taxes.
- To equalize an inheritance for business owners who have children involved in the business and children not involved in the business.
- To provide funds for a beneficiary to acquire specific assets from the estate.

Business planning needs

Business owners who are considering life insurance for the following reasons may be candidates for premium financing:

- As a source of funding to meet a business owner's business succession goals (e.g., meeting obligations under a buy-sell agreement or providing funds for beneficiaries to acquire the family business).
- As a source of funding for executive compensation programs (e.g., executive bonus plans and nonqualified deferred compensation plans).

Retirement income planning

An indexed universal life insurance (IUL) policy could play an integral role in potentially supplementing your client's overall financial strategy, providing protection with a death benefit – and helping bridge the gap between retirement savings and retirement income goals.

Using a premium financing strategy can allow them to get the coverage they need while their cash flow is tied up in business or other financial vehicles.

FOR MORE INFORMATION ABOUT leveraging a premium financing strategy for your clients' life insurance needs, contact your Allianz® sales representative.

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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