Allianz

Allianz Life Insurance Company of North America

PREMIUM FINANCE

Using premium financing for estate planning strategies

A case study

Meet Michelle, a high-net-worth individual with estate-planning needs

Michelle[1] is a 53-year-old businesswoman and mother of two adult children. She owns a small franchise of profitable printing and shipping service centers.

Because Michelle has a strong interest in environmental issues, she's hoping to leave a sizable legacy to several clean water organizations after her death, in addition to her children. However, while she does have significant net worth, much of her money is tied up in her business and high-performing investments. Liquidating some of these holdings could reduce potential future returns and result in additional tax liabilities.

At the same time, she's concerned that federal estate and gift taxes could chip away at the amount of her legacy. As Michelle explained to her financial professional, "I want to ensure that as much as possible of the money I'm leaving behind goes to my children and the organizations I support."

Meeting with her financial professional, they identified a strategy to provide her with financial protection as well as a potential solution for her estate-planning concerns.

Key to this strategy is a high-value **indexed universal life (IUL) insurance policy,** purchased using a premium finance strategy.

[1] A hypothetical client, used here for illustrative purposes only.

CSI-540 (R-7/2024)

Meet Michelle. Hypothetical client, female, 53 years old.

FINANCIAL OBJECTIVES:

- Acquire an additional $20,000,000+ of death benefit for estate-planning purposes
- Minimize federal estate and gift taxes
- Avoid liquidating high-performing assets and the associated potential income tax

In a premium finance strategy, the insured borrows money from a third-party financial institution (such as a bank) to pay premiums to the insurance provider. Many parties are included in a strategy like this, such as a financial professional, premium finance vendor, bank, and insuring company.

A potential solution: A high-value life insurance policy and premium financing

The IUL policy will be owned by an irrevocable life insurance trust (ILIT) designed to meet Michelle's estate-planning goals. (In simplest terms, an ILIT is a type of living trust that's specifically set up to own a life insurance policy.)

Instead of liquidating any of Michelle's assets and gifting the proceeds to the ILIT to pay the policy premiums, the trust will borrow the necessary funds from an approved bank lender. The policy itself will be assigned as collateral for the bank loan.

Michelle will work with her financial professional to create a plan that includes paying levelized interest payments for 10 years and repaying the premium finance loan using the policy's cash value. She also has the option of using portions of her lifetime gift tax exemption and/or annual gift exclusion to make additional gifts to the trust that can help pay off the loan. As there are many considerations when using this strategy, Michelle consults with her tax advisor and attorney to discuss her specific situation.

Upon Michelle's passing, the death benefit proceeds of the IUL will provide immediate tax-free funds to the trust, providing it with needed estate liquidity. (Designed properly, the death benefits will not be included in Michelle's estate for estate tax purposes.)

In sum, by using a premium finance strategy, Michelle can address her estate planning objectives; continue to own and benefit from her investment and business assets; and help minimize her exposure to federal gift and estate taxes.

KEY VALUES:

- Initial death benefit: $20,281,828
- Annual premium payment for 10 years: $1,412,110
- Annual client interest payment for 10 years: $300,000
- Loan repayment to bank in year 20: $27,256,962
- Death benefit in year 20 (after loan repayment): $22,537,997

After Michelle repays her bank loan, she would have over $22,000,000 in death benefit left to address her original objective to cover her estate planning need.

Policy year	Policy premium	Loaned premium	Client premium	Client interest	Loan to bank
1	$1,412,110	$1,412,110	$0	$300,000	0
2	$1,412,110	$1,412,110	$0	$300,000	0
3	$1,412,110	$1,412,110	$0	$300,000	0
4	$1,412,110	$1,412,110	$0	$300,000	0
5	$1,412,110	$1,412,110	$0	$300,000	0
6	$1,412,110	$1,412,110	$0	$300,000	0
7	$1,412,110	$1,412,110	$0	$300,000	0
8	$1,412,110	$1,412,110	$0	$300,000	0
9	$1,412,110	$1,412,110	$0	$300,000	0
10	$1,412,110	$1,412,110	$0	$300,000	0
11	$0	$0	$0	$0	0
12	$0	$0	$0	$0	0
13	$0	$0	$0	$0	0
14	$0	$0	$0	$0	0
15	$0	$0	$0	$0	0
16	$0	$0	$0	$0	0
17	$0	$0	$0	$0	0
18	$0	$0	$0	$0	0
19	$0	$0	$0	$0	0
20	$0	$0	$0	$0	27,256,962
21	$0	$0	$0	$0	0
22	$0	$0	$0	$0	0
23	$0	$0	$0	$0	0
24	$0	$0	$0	$0	0
25	$0	$0	$0	$0	0
26	$0	$0	$0	$0	0
27	$0	$0	$0	$0	0
28	$0	$0	$0	$0	0
29	$0	$0	$0	$0	0
30	$0	$0	$0	$0	0

LOAN VALUES			POLICY VALUES				IMPACT OF LOAN		
Loan rate	Loan interest	Loan balance EOY	Account value	Cash value	Policy loan balance	Policy death benefit	Net cash value	Net death benefit	Collateral at 90%
5.00%	70,606	1,182,716	$1,281,828	$829,153	$0	$20,281,828	-$353,563	$19,099,112	$436,478
5.54%	143,753	2,438,579	$2,703,716	$2,264,341	$0	$21,703,716	-$174,238	$19,265,137	$400,672
5.52%	212,558	3,763,247	$4,213,891	$3,787,721	$0	$23,213,891	$24,474	$19,450,644	$354,298
5.65%	292,408	5,167,765	$5,817,721	$5,404,756	$0	$24,817,721	$236,991	$19,649,956	$303,484
5.82%	382,949	6,662,823	$7,523,050	$7,123,100	$0	$26,523,050	$460,277	$19,860,227	$252,033
5.96%	481,266	8,256,199	$9,336,971	$8,950,036	$0	$28,336,971	$693,837	$20,080,772	$201,166
6.07%	586,866	9,955,176	$11,266,975	$10,892,960	$0	$30,266,975	$937,784	$20,311,799	$151,512
6.15%	699,088	11,766,374	$13,320,933	$13,009,333	$0	$32,320,933	$1,242,960	$20,554,560	$57,974
6.20%	817,066	13,695,550	$15,508,092	$15,258,812	$0	$34,508,092	$1,563,262	$20,812,542	$0
6.24%	942,718	15,750,378	$17,837,449	$17,650,489	$0	$36,837,449	$1,900,111	$21,087,071	$0
6.26%	985,974	16,736,351	$18,889,210	$18,764,570	$0	$37,889,210	$2,028,218	$21,152,858	$0
6.27%	1,049,369	17,785,720	$20,008,936	$19,946,616	$0	$39,008,936	$2,160,895	$21,223,215	$0
6.28%	1,116,943	18,902,664	$21,200,895	$21,200,895	$0	$40,200,895	$2,298,231	$21,298,231	$0
6.29%	1,188,978	20,091,641	$22,469,356	$22,469,356	$0	$41,469,356	$2,377,714	$21,377,714	$0
6.29%	1,263,764	21,355,406	$23,818,301	$23,818,301	$0	$42,818,301	$2,462,895	$21,462,895	$0
6.29%	1,343,255	22,698,661	$25,307,042	$25,307,042	$0	$44,307,042	$2,608,381	$21,608,381	$0
6.29%	1,427,746	24,126,406	$26,881,983	$26,881,983	$0	$45,881,983	$2,755,577	$21,755,577	$0
6.29%	1,517,551	25,643,957	$28,546,774	$28,546,774	$0	$47,546,774	$2,902,816	$21,902,816	$0
6.29%	1,613,005	27,256,962	$30,304,291	$30,304,291	$0	$49,304,291	$3,047,329	$22,047,329	$0
6.29%	0	0	$32,157,807	$3,537,997	$28,619,810	$22,537,997	$3,537,997	$22,537,997	$0
6.29%	0	0	$34,110,976	$4,060,175	$30,050,801	$23,060,175	$4,060,175	$23,060,175	$0
6.29%	0	0	$36,167,472	$4,614,131	$31,553,341	$23,614,131	$4,614,131	$23,614,131	$0
6.29%	0	0	$38,331,481	$5,200,473	$33,131,008	$24,200,473	$5,200,473	$24,200,473	$0
6.29%	0	0	$40,605,369	$5,817,811	$34,787,558	$24,817,811	$5,817,811	$24,817,811	$0
6.29%	0	0	$42,991,175	$6,464,239	$36,526,936	$25,464,239	$6,464,239	$25,464,239	$0
6.29%	0	0	$45,487,397	$7,134,114	$38,353,283	$26,134,114	$7,134,114	$26,134,114	$0
6.29%	0	0	$48,111,426	$7,840,478	$40,270,947	$26,840,478	$7,840,478	$26,840,478	$0
6.29%	0	0	$50,866,913	$8,582,418	$42,284,494	$27,582,418	$8,582,418	$27,582,418	$0
6.29%	0	0	$53,754,044	$9,355,325	$44,398,719	$28,355,325	$9,355,325	$28,355,325	$0
6.29%	0	0	$56,772,333	$10,153,678	$46,618,655	$29,153,678	$10,153,678	$29,153,678	$0

This hypothetical example is provided for illustrative purposes only and is not intended to represent or project the results of a specific product or policy.

Assumptions: Allianz Life Accumulator™ Indexed Universal Life Insurance Policy, $20,281,828 initial death benefit, 10-pay annual premium $1,412,110, 5.5% nonguaranteed illustrated rate.

Assuming the guaranteed minimum interest rate of 0.10% and maximum charges, the policy would have lapsed in year 21 after the bank loan was repaid from the policy cash value.

Loaned premium: Amount borrowed from the bank to pay the premiums of the life insurance policy.

Client interest: Amount of annual interest paid by the trust.

Loan rate: Annual borrowing interest rate the lender charges on the loan.

Loan interest: The amount of interest due based on the borrowing interest rate and loan amount taken.

Loan balance: Amount borrowed from the bank to pay the premium payments plus loan interest; required to be paid back to the bank.

Collateral: At issue, the policy is assigned to the bank. The borrower may be required to assign additional collateral, especially in the earlier years when the policy cash value may not be sufficient.

Net cash value: Cash value minus any outstanding policy loans.

Net death benefit: Death benefit minus any outstanding policy loans.

Collateral at 90%: Amount the policy owner would need as collateral in other assets each year, in addition to the IUL policy.

Considerations:

- IUL requires health and financial underwriting.
- An IUL policy is subject to market volatility, to a certain extent; negative index performance would result in zero interest earned by the policy. The amount of interest the policy earns impacts the amount of cash value available, and there is no guarantee that there will be sufficient cash value available to keep the policy in force or to support a loan strategy.
- If taking policy loans, you need to be sure you are managing your policy values to ensure that the policy remains in force. Additional premium payments may be required to keep the policy in force.
- The cost of the loan can vary by loan type, and the interest earned by the policy may not be enough to cover the loan cost each year, which reduces policy values. Policy loans will reduce your available cash value, which may cause the policy to lapse. If the policy lapses, outstanding policy loans in excess of the premium paid will be subject to ordinary income tax, which can be a substantial amount of taxable income.
- There are additional considerations specific to premium financing which include bank loan rates, policy performance, loan renewals, collateral shortfall, and potential policy taxation. For additional information, please reference Additional considerations when using a premium financing strategy (CSI-543) and Glossary of terms (CSI-542).
- A premium finance strategy is not suitable for everyone. Work with your financial professional and tax advisor to determine if this may be suitable for your needs.

Is a premium finance strategy suitable for your estate-planning needs?
Talk to your financial professional or tax advisor.

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.