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# Financed Life Insurance: Case Study of a 55 Year Old Male

Produced By: The GB Financial Group

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**Case Study:**

The family, comprised of a successful entrepreneur, his wife and two young children knew there was a need for proper planning. The client was focused on building his business and had been put off by the significant liquid contribution necessary to acquire the amount needed. He had a small term policy, but was severely underinsured leaving both his family and his business vulnerable. GB Financial was brought in to provide a solution. GB Financial analyzed his current insurance and discussed the various options for providing the death benefit needed through multiple strategies.

A well-versed investor, the client realized the opportunity cost gained by financing the majority of the premiums, leaving cash flow intact for his business. Educating and working together with the client's current estate planning team, GB Financial put together a diversified financed life insurance structure, implemented it, and has managed it for a decade.

Client Specifications:

- Age 55
- Estate $42million
- Asset mix 80% illiquid (business), 20% liquid.
- Liquidity need at death $9.5million
- Standard Health Underwriting Class

When designing a premium-financing scenario, it is important to have a good understanding of the client's needs, asset mix and the overall estate plan. The initial design is then created by structuring a life insurance policy that meets the client's objectives. Careful consideration is also given to designing the specific lending structure so that the result allows for the most balanced relationship between the policy and the loan.

The proposal that is then prepared for the client's review should run the transaction through multiple interest rate environments to illustrate the impact of changing rates. In addition, the client should be shown various contributions scenarios e.g. interest paid for five years or the payment of a premium to deleverage the structure. These various scenarios are a helpful tool for the client to understand the correlation between a small financial commitment and the long term viability of the transaction as well as the ability of the transaction to weather uncertain interest rate environments.

The following definitions of terms refer to the chart on the following page which shows the transaction as explained under the current cost of borrowing.

Premium Paid By Client: The amount of premium paid out of pocket by the client.

Premium Borrowed: The amount of premium borrowed annually by the Irrevocable Life Insurance Trust on behalf of the insured. This is paid to the insurance carrier each year for the number of years noted in the Economic Benefit Analysis.

Rate of Borrowing: Current cost of borrowing for specific year.

Interest Paid by Client: The amount of interest paid out of pocket by the client.

Interest Borrowed: The amount of interest borrowed annually by the Irrevocable Life Insurance Trust on behalf of the insured.

Cumulative Loan: Full amount borrowed by the Irrevocable Life Insurance Trust plus interest/fees since the inception of the policy.

Policy Collateral Value: The policy collateral value is the net equity of the policy. This is an end of year value calculated annually at the beginning of each calendar year allowing us to show you the how much cash is in the policy after yearly costs are taken out. This value is always shown with no performance being factored in for the upcoming year.

Collateral Required From Client: This is the difference between the cumulative loan and the policy collateral value. It is an amount the client needs to post above the policy itself. When this number is zero, the cost of paying back the loan is less than the net equity of the policy, and the policy is the sole collateral required.

Benefit (net of loan): This is the net amount of benefit after the loan has been paid off from the death benefit. GBFGPreservation® is structured around what economic benefit is right for each client's needs.

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Future Year's at 6% Policy Performance
Current Cost of Borrowing

| | 55 Male | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| YR | Premium Paid by Client | Premium Borrowed | Rate of Borrowing | Interest Paid by Client | Interest Borrowed | Cumulative Loan (EOY) | Policy Collateral Value | Collateral Required From Client | Benefit (net of loan) |
| 1 | 590,277 | 0 | 4.000% | 0 | 0 | 0 | 149,978 | 0 | 10,475,108 |
| 2 | 0 | 590,277 | 4.000% | 0 | 24,178 | 620,358 | 709,597 | 0 | 10,378,604 |
| 3 | 0 | 590,277 | 4.000% | 0 | 49,337 | 1,265,875 | 1,301,873 | 0 | 10,289,599 |
| 4 | 0 | 590,277 | 4.000% | 0 | 75,517 | 1,937,572 | 1,928,601 | 15,178 | 10,208,866 |
| 5 | 0 | 590,277 | 4.000% | 0 | 103,039 | 2,636,791 | 2,591,426 | 53,811 | 10,136,708 |
| 6 | 0 | 590,277 | 4.000% | 0 | 131,115 | 3,364,085 | 3,329,502 | 45,360 | 10,111,725 |
| 7 | 0 | 590,277 | 4.000% | 0 | 160,611 | 4,120,876 | 4,109,746 | 24,331 | 10,099,414 |
| 8 | 0 | 590,277 | 4.000% | 0 | 191,303 | 4,908,359 | 4,934,276 | 0 | 10,100,697 |
| 9 | 0 | 590,277 | 4.000% | 0 | 223,851 | 5,728,390 | 5,805,132 | 0 | 10,115,758 |
| 10 | 0 | 590,277 | 4.000% | 0 | 256,496 | 6,581,066 | 6,727,833 | 0 | 10,146,767 |
| 11 | 0 | 0 | 4.000% | 0 | 266,899 | 6,847,965 | 7,100,641 | 0 | 10,252,676 |
| 12 | 0 | 0 | 4.000% | 0 | 277,723 | 7,125,688 | 7,489,818 | 0 | 10,364,130 |
| 13 | 0 | 0 | 4.000% | 0 | 289,778 | 7,415,465 | 7,895,975 | 0 | 10,480,510 |
| 14 | 0 | 0 | 4.000% | 0 | 300,738 | 7,716,204 | 8,319,441 | 0 | 10,603,237 |
| 15 | 0 | 0 | 4.000% | 0 | 312,935 | 8,029,139 | 8,760,109 | 0 | 10,730,970 |
| 16 | 0 | 0 | 4.000% | 0 | 325,626 | 8,354,765 | 9,217,208 | 0 | 10,862,443 |
| 17 | 0 | 0 | 4.000% | 0 | 339,760 | 8,694,525 | 9,689,801 | 0 | 10,995,276 |
| 18 | 0 | 0 | 4.000% | 0 | 352,611 | 9,047,137 | 10,176,330 | 0 | 11,129,193 |
| 19 | 0 | 0 | 4.000% | 0 | 366,912 | 9,414,048 | 10,674,906 | 0 | 11,260,858 |
| 20 | 0 | 0 | 4.000% | 0 | 381,792 | 9,795,840 | 11,183,796 | 0 | 11,387,956 |
| 21 | 0 | 0 | 4.000% | 0 | 398,364 | 10,194,204 | 11,701,509 | 0 | 11,507,305 |
| 22 | 0 | 0 | 4.000% | 0 | 413,432 | 10,607,636 | 12,226,710 | 0 | 11,619,074 |
| 23 | 0 | 0 | 4.000% | 0 | 430,199 | 11,037,835 | 12,757,925 | 0 | 11,720,090 |
| 24 | 0 | 0 | 4.000% | 0 | 447,646 | 11,485,480 | 13,293,105 | 0 | 11,807,625 |
| 25 | 0 | 0 | 4.000% | 0 | 467,076 | 11,952,556 | 13,828,650 | 0 | 11,876,094 |
| 26 | 0 | 0 | 4.000% | 0 | 484,743 | 12,437,299 | 14,359,681 | 0 | 11,922,382 |
| 27 | 0 | 0 | 4.000% | 0 | 504,402 | 12,941,701 | 14,876,866 | 0 | 11,935,165 |
| 28 | 0 | 0 | 4.000% | 0 | 524,858 | 13,466,558 | 15,374,050 | 0 | 11,907,492 |
| 29 | 0 | 0 | 4.000% | 0 | 547,640 | 14,014,198 | 15,842,300 | 0 | 11,828,102 |
| 30 | 0 | 0 | 4.000% | 0 | 568,354 | 14,582,552 | 16,270,464 | 0 | 11,687,912 |

The above Economic Benefit Analysis depicts how the transaction will perform based on today's conditions and the assumption that all premiums and interest are accrued and the client is purely posting collateral.

The net-economic benefit, which is the death benefit minus the cost of acquisition (in this case repayment of the loan) is the far right column and demonstrates a steady long-term growth. The collateral to be posted in addition to the policy are the amounts shown in the column, "Collateral required from client." These are cumulative numbers on an annual end-of-year basis. It is what the client has "at risk".

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Below is a risk analysis comparison of varying interest rates and their impact on the amount of collateral needed. In addition it shows the impact of paying 5 or 10 years of interest.

Posted Collateral Comparison

| | 55 Male | | | | | |
|---|---|---|---|---|---|---|
| YR | Premium Borrowed | Current | Regression | Alternative | 5-Yr Interest Paid | 10-Yr Interest Paid |
| 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | 590,277 | 0 | 0 | 0 | 0 | 0 |
| 3 | 590,277 | 0 | 0 | 0 | 0 | 0 |
| 4 | 590,277 | 15,178 | 15,178 | 15,178 | 0 | 0 |
| 5 | 590,277 | 53,811 | 53,811 | 53,811 | 0 | 0 |
| 6 | 590,277 | 45,360 | 0 | 110,917 | 0 | 0 |
| 7 | 590,277 | 24,331 | 0 | 174,182 | 0 | 0 |
| 8 | 590,277 | 0 | 0 | 244,424 | 0 | 0 |
| 9 | 590,277 | 0 | 0 | 323,682 | 0 | 0 |
| 10 | 590,277 | 0 | 0 | 407,881 | 69,171 | 0 |
| 11 | 0 | 0 | 0 | 468,735 | 109,420 | 0 |
| 12 | 0 | 0 | 0 | 539,584 | 158,410 | 0 |
| 13 | 0 | 0 | 0 | 622,754 | 218,329 | 0 |
| 14 | 0 | 0 | 0 | 717,031 | 288,004 | 0 |
| 15 | 0 | 0 | 0 | 825,581 | 370,454 | 0 |
| 16 | 0 | 0 | 0 | 951,090 | 468,276 | 0 |
| 17 | 0 | 0 | 0 | 1,098,216 | 585,951 | 0 |
| 18 | 0 | 0 | 0 | 1,267,396 | 723,968 | 0 |
| 19 | 0 | 0 | 0 | 1,464,392 | 887,906 | 0 |
| 20 | 0 | 0 | 0 | 1,693,365 | 1,081,809 | 0 |
| 21 | 0 | 0 | 0 | 1,960,517 | 1,311,656 | 0 |
| 22 | 0 | 0 | 0 | 2,265,764 | 1,577,431 | 0 |
| 23 | 0 | 0 | 0 | 2,615,486 | 1,885,279 | 0 |
| 24 | 0 | 0 | 0 | 3,014,804 | 2,240,177 | 0 |
| 25 | 0 | 0 | 0 | 3,473,290 | 2,651,410 | 0 |
| 26 | 0 | 0 | 209,905 | 3,994,021 | 3,122,144 | 0 |
| 27 | 0 | 0 | 1,012,809 | 4,592,545 | 3,667,628 | 0 |
| 28 | 0 | 0 | 2,095,216 | 5,278,910 | 4,297,727 | 212,327 |
| 29 | 0 | 0 | 3,207,262 | 6,069,608 | 5,028,574 | 693,964 |
| 30 | 0 | 0 | 4,345,536 | 6,973,513 | 5,869,149 | 1,270,850 |

Glossary

1) Current: Total collateral pledge required from client if interest rates continue at current rate

2) Regression: Total collateral pledge required from client if interest rates at historical cost of borrowing.

3) Alternative: Total collateral pledge required from client if interest rates at alternative interest rate.

4) 5-Yr Interest Paid: Total collateral pledge required from client if interest is paid out-of-pocket for the first five years.

5) 10-Yr Interest Paid: Total collateral pledge required from client if interest is paid out-of-pocket for the first ten years.



Many clients address the collateral and benefit piece in their own way. Some will post collateral and prefer not to contribute to the transaction at all, leaving their confidence in interest rates and crediting rates. Others may wish to pay some of the interest or even some of the premium. If they do this they will see a reduction in the amount of collateral posted and in some cases a more stable and better long-term benefit. One of the critical components is having the flexibility in the lending package so those decisions can be made on an annual basis and not upfront.