

# WEALTH ADVISOR ALERT

FOR PRIVATE CLIENT SERVICES

## PREMIUM FINANCING - IS IT WORTH YOUR CLIENTS CONSIDERATION?

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You may have found recently that many of your wealthy families are being approached with a proposal for life insurance premium financing. In today's low interest rate environment, this is presented as an opportunity to use "other peoples' money" to gain the value and economic advantages of life insurance and potentially minimize or eliminate the client outlay.

Below are a few key issues to beware of, that in some cases may result in an overly optimistic presentation by the promoters:


- Proposals often assume that the life insurance product's values will always grow more rapidly than the loan/loan interest.
- Projected interest rates may be illustrated to increase somewhat over time but not to reasonable levels given long term historical rates.
- Indexed universal life policies are often incorporated – they are among the most complex type of insurance available today and may illustrate at a crediting rate that is the maximum allowed by law.

Any of these misprojections, among other factors, can lead to the client posting substantial additional collateral, paying more than expected into the arrangement, or attempting to unwind the transaction, which can be very costly and leave a minimal or no benefit. Premium financing is not without risk. Our experience has been that these are complex programs coordinated with complex insurance products that may be of great potential value for the right client in the right circumstances, but are not for everyone.

If you would like feedback on a proposal being considered by one of your clients or would like more information, we would be happy to schedule a time to meet with you.

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