

Premium finance as a funding option

What is premium finance?

Premium finance is an arrangement for funding life insurance premiums by using a loan from a third-party lender. This strategy is best suited for high-net-worth individuals whose finances are typically invested in businesses, real estate, or stocks with a high rate of return. To preserve liquidity and free up capital for these investments, high net-worth individuals borrow money from a lender to pay life insurance premiums. The loan is generally secured by both the policy cash value and other collateral.

How does it work at North American?

Premium finance at North American typically requires creating an irrevocable life insurance trust (ILIT). The ILIT owns the policy and pays premiums to North American using money borrowed from the lender. The insured makes annual gifts of loan interest into the ILIT. The ILIT will later repay the lender using policy cash values, other assets contributed to the trust, or death benefit, if the insured passes away while the loan is in place. Any remaining death benefit passes to the ILIT beneficiaries.

Who is it right for?

Premium finance might be the right fit for clients who meet the following criteria:

- Business owners
- High-net-worth individuals
- Minimum net worth of \$10 million
- Minimum annual income of \$200,000

Dedicated advanced markets, regional support, new business, and underwriting teams are ready to serve you and your clients looking to use premium finance as a funding option. With retention limits up to \$10 million on several currently marketed permanent products, subject to company guidelines, North American is equipped to support your large cases with professionalism, efficiency, and expertise.

Next steps:

Review North American's premium finance guidelines and contact your upline.

Trusts should be drafted only by an attorney familiar with such matters. Neither North American nor its agents give tax advice.

North American reserves the right to restrict premium financed sales at our discretion.

North American is a product provider.

For most policies, withdrawals are free from federal income tax to the extent of the investment in the contract, and policy loans are also tax-free so long as the policy does not terminate before the death of the insured. However, if the policy is a Modified Endowment Contract (MEC), a withdrawal or policy loan may be taxable upon receipt. Further, unpaid loan interest on a MEC may be taxable. A MEC is a contract received in exchange for a MEC or for which premiums paid during a seven-year testing period exceed prescribed premium limits (7-pay premiums).

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