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THE MISCONCEPTIONS OF LIFE INSURANCE PREMIUM FINANCING

Life insurance premium financing is a valuable tool for individuals who need life insurance but don't want to tie up capital. As an agent, a better understanding of life insurance premium financing can open the door to new clients who may benefit from the economic value of financing. We've compiled some common misconceptions that may provide insight into the true benefits of life insurance premium financing.

MYTH: LIFE INSURANCE PREMIUM FINANCING IS A GIMMICK.

FALSE. Life insurance premium financing is a method of paying for life insurance premiums; it is not a gimmick. The use of leverage to seek a positive arbitrage is a practice that has been used by successful investors for centuries and will continue to be used. Smart clients and insurance professionals are always looking for methods to reduce their gift taxes, accumulate assets, and maintain a positive cash flow while protecting what is important to them. In essence, we finance our homes, our businesses, and practically everything else, so why shouldn't we finance our life insurance?

MYTH: PREMIUM FINANCE ONLY WORKS WHEN INTEREST RATES ARE LOW AND THE POLICY HAS STRONG RETURNS.

FALSE. Premium finance continues to work as a part of the client's succession, estate, and asset accumulation plan regardless of the interest rate. While higher interest rates may necessitate more out-of-pocket expenses pertaining to the premium finance loan, those expenses are still a small portion of the premium being funded and the insurance coverage that has been acquired.

Over the past several years, there has been a significant increase in the number of indexed universal life insurance (IUL) policies that have been purchased and financed. Many producers assume that IUL products work well with financing only when the loan interest rate is low and the IUL policy return is high. Often, the financing is being sold as an internal arbitrage between the lower borrowing rate and the higher policy crediting rate, but the potential for down years is overlooked.

We suggest establishing a need for the coverage first and presenting financing as an option to pay the premiums. The true arbitrage is not with the interest rate versus the policy return, but rather the cost of borrowing versus the growth of the client's capital that would have been used toward premium payments. We call this "retained capital," and it can typically be used to augment growth in the client's business and/or other outside investments.

If a client is considering simply writing a check for an insurance premium, a good question to ask might be: "What type of investment is the client liquidating, or diverting funds from, to pay the premium, and what is the lost opportunity cost?"



MYTH: LIFE INSURANCE PREMIUM FINANCE ONLY MAKES SENSE FOR VERY HIGH TO ULTRA HIGH NET WORTH CLIENTS.

FALSE. Life insurance premium financing can be a viable strategy for middle market high net worth clients who demonstrate a need for life insurance and an ability to service debt associated with premium financing. This is typically shown through complementary liquidity and income. We've effectively funded insurance plans for productive borrowers, young and old, and can attest that premium financing can be a practical planning tool for successful clients of all ages and walks of life.

MYTH: FINANCING WITH A LOCAL LENDER WILL BE CHEAPER AND BETTER FOR MY CLIENT.

FALSE. While the local lender will be happy to assist a high net worth individual with their banking needs, we often refinance deals from these lenders. The local lenders are typically good at making loans for cars or mortgages, but life insurance premium financing loans are a niche product. Most lenders do not understand the subtleties of insurance products and the many riders that can offer cash value performance. At Wintrust Life, our only business is life insurance premium finance loans, and our employees are dedicated to closing your transaction. We have more than 20 years of uninterrupted fundings on behalf of our clients and have financed more than \$4.5 billion in premiums. We know what works and how to get your deal done.

MYTH: IT IS NOT A GOOD IDEA FOR CORPORATIONS TO USE FINANCING FOR GROUP CASES.

FALSE. While corporate-owned life insurance (COLI) deals are not new, Wintrust Life has seen an increase in the number of deals that are closing. Whether your COLI deal is for a small group of doctors or a massive 1,000 employee deal, Wintrust Life has the experience to get these deals funded.

For more information about what Wintrust Life can do for you, contact:

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