Penn Mutual

Premium Financing

Funding your life insurance policy while preserving your wealth

You've earned a significant amount of wealth that you want to preserve and pass on. While life insurance accomplishes this, in some instances the level of life insurance you need might require you to liquidate a portion of your assets to pay your life insurance policy premiums. Fortunately, there's a solution.

Premium financing can be an effective strategy in which you leverage a lender's capital to pay your annual policy premiums instead of liquidating your assets. This allows you to retain a significant amount of capital to maintain or make investments, preserve savings or meet cash flow needs. Premium financing shouldn't be the reason you buy life insurance, but rather an effective method of paying for life insurance.

And, if your life insurance policy performs favorably, you could potentially earn a higher level of interest from your policy than the interest you pay for the loan.

Who should consider premium financing?

Individuals, corporations, trusts and partnerships with a minimum net worth of $15 million in assets that need a significant amount of life insurance for personal, estate, or business planning purposes.

What are the biggest advantages of premium financing?

With premium financing you're able to:

Obtain a significant amount of life insurance with less upfront out-of-pocket costs.

Preserve, maintain, and build assets in your existing portfolio instead of using those assets to fund your life insurance policy.

Leverage your annual gift-tax exclusions or lifetime exemption to transfer other assets estate-tax-free.

Minimize or eliminate gift taxes on policy premiums if the policy is owned by an irrevocable trust.

Use your policy's cash value as part of the collateral for the loan.[1]

Another advantage is that if you have sufficient collateral, you can purchase your life insurance policy by paying only interest to the lender.

[1]Additional collateral will be required to secure the loan.

How does premium financing work?

Premium financing involves an arrangement through which you borrow money at a competitive interest rate from a third-party lender to pay your life insurance premiums.

The process goes like this:

You apply for a loan to finance your premiums at the same time you apply for a life insurance policy.[1]

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If the insurance application and loan are approved, the lender pays the premiums to the insurance company.

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Your policy's cash value, combined with other assets, serve as loan collateral and the death benefit is assigned to the lender to cover the outstanding loan in the event of death.

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You pay interest payments to your lender.

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If the loan was not already fully repaid, at your death, your beneficiaries receive any remaining balance of your policy after the loan has been repaid.

[1] Approval is not guaranteed.

What are some things to keep in mind before choosing premium financing?

Final eligibility for premium financing will be based on meeting financial and medical requirements for the life insurance policy and premium finance loan.

You will need to consult with your legal and tax advisors to understand potential tax implications, including estate, gift, and income tax.

Loan interest rates can increase, which would result in higher loan interest payments than originally planned.

Policy credited rates can fluctuate, which may require additional collateral for a loan.

Lower than anticipated policy performance may require the need to borrow additional premiums to fund the policy.

Work with your financial professional to explore the many ways premium financing can help you achieve your unique life insurance goals.

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