PACIFIC LIFE

ADVANCED SALES SOLUTIONS AT-A-GLANCE

PREMIUM FINANCING USING LIFE INSURANCE

A Flexible Leveraged Funding Strategy

High-net-worth individuals with substantial estates or successful businesses may need large life insurance policies for death benefit protection as part of their overall financial plan.[1] Paying the premiums required for these large policies may require them to liquidate assets. This is where premium financing life insurance may be beneficial.

What is Premium Financing?

Premium financing involves using a bank loan to pay large life insurance premiums typically larger than $100,000 per year.[2] While premium financing isn't for everyone, it can be a consideration for high-net-worth clients who understand and are comfortable using debt as a leverage strategy. Premium financing is often used in wealth transfer, estate planning, buy-sell planning, and key person coverage.

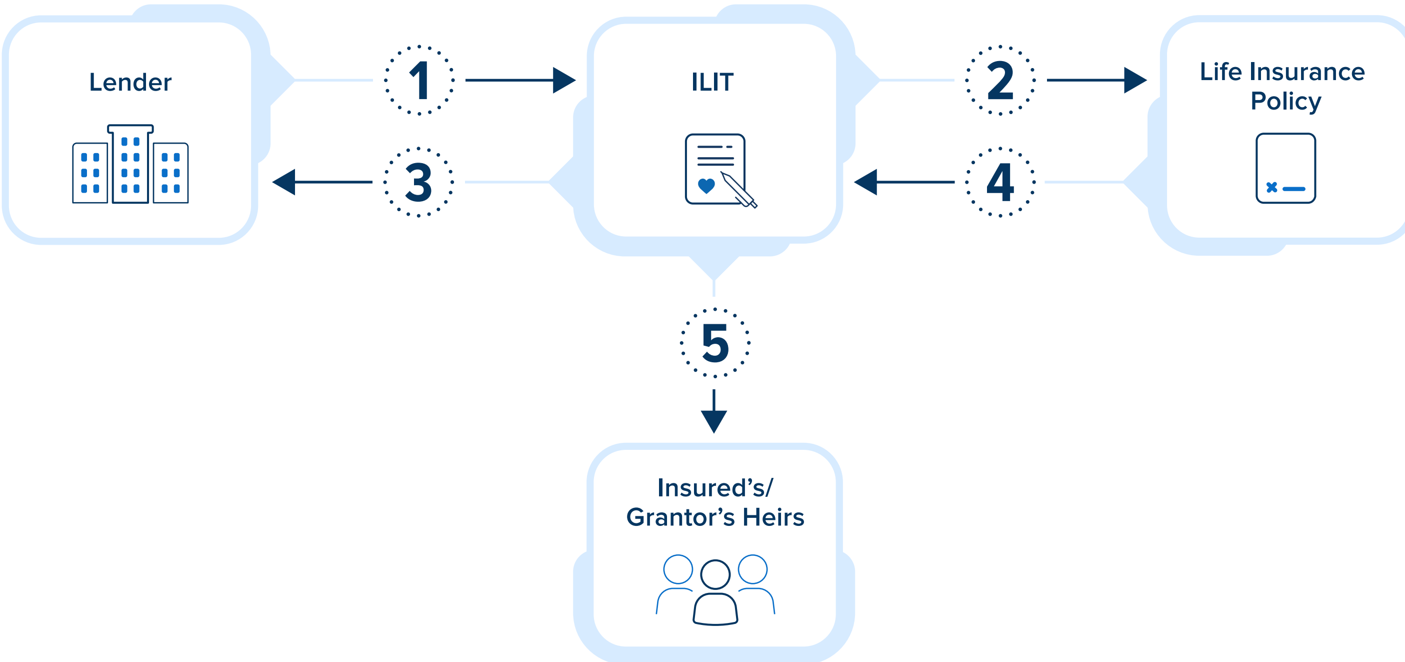
Potential Benefits

External Source of Funds	Clients can efficiently pay premiums for their large life insurance policies without liquidating assets, investments, or otherwise disrupting plans for their capital.
May Limit Investment Losses and Taxation	▪ Clients may borrow from a third-party lender at a potentially attractive interest rate. ▪ Liquidating taxable or undervalued investments can be avoided.
Minimize Gift Taxes	▪ With proper planning, clients can transfer wealth with minimal impact from estate or gift taxes (gifting may be limited to just the annual loan interest cost rather than the entire annual premium amount). ▪ Premium financing can be used in the overall estate plan and wealth transfer to heirs.[3]
Enhanced Return Potential	Client may potentially achieve a higher Internal Rate of Return than if they utilize their own capital.

[1]Note that the primary purpose of a life insurance policy is to provide death benefit protection to family members or co-business owners in the event of the insured's premature death.

[2]When a loan is used to purchase a variable life insurance policy, additional lending requirements under Regulation U (12 C.F.R. 220) and Regulation T (12 C.F.R. 221) must be met. Please contact your lender and/or your legal advisors for more information.

[3]According to the Tax Cuts and Jobs Act of 2017, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are all $10,000,000 per person (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%. In 2026, the federal estate, gift and generation-skipping transfer (GST) tax exemption amounts are scheduled to revert to $5,000,000 per person (indexed for inflation for tax years after 2011).



How it Works

1	**Loan**	An established irrevocable life insurance trust (ILIT) purchases a life insurance policy on the life of the trust's grantor and applies for a loan from a premium finance lender.
2	**Premiums**	The ILIT will use the loan proceeds to pay the premiums for the life insurance policy.
3	**Collateral/ Interest**	▪ The ILIT will provide a collateral interest in the cash value and death benefit of the life insurance policy equal to the loan balance to the lender. ▪ The lender may require additional collateral when the policy cash surrender value is less than the loan balance. ▪ The ILIT pays the lender interest on the loan at the required rate.
4	**Death Benefit**	▪ At the insured's death, the ILIT will receive the death benefit proceeds of the life insurance policy. ▪ The death benefit proceeds first pay the loan balance.
5	**Distributions**	After the loan is paid, the ILIT can distribute the remaining life insurance death benefit proceeds to the ILIT's beneficiaries and/or use the death benefit proceeds to provide the insured's estate with liquidity to pay estate taxes.

Considerations

- Clients who take loans that are larger than they're comfortable paying back may end up defaulting on the loan or surrendering the life insurance policy to pay back the debt.
- Life insurance crediting rates may be less than the loan interest rate. The policy's crediting rate has no relationship to the loan interest rate charged by the third-party lender.
- The loan interest rate may change over time.
- Clients may be required to qualify financially, with the lender, each time they borrow a premium amount, rather than being prequalified for all the premiums at once.
- Loan payback may require developing a plan to efficiently repay the loan.

The **Advanced Designs Unit (ADU)** is a group of life insurance and legal experts specialized in advanced planning concepts involving life insurance such as estate planning, business succession planning, executive compensation, charitable planning, split dollar, and qualified plans. They are here to consult with you and thrive on finding solutions to your most complex life insurance cases.

For help with your next case, please contact our Advanced Designs Unit at AdvancedDesigns@PacificLife.com or (800) 800-7681, ext. 3690.

PACIFIC LIFE

24-283

LFQ3590-2400

8/24 E827