

Premium Financing ►

by Leila Morris

Meeting Today's Challenges with Premium Financing

CMS - Succession Capital Alliance held its second annual premium financing conference in Las Vegas August 17 to 19. Two hundred people attended the event, which highlighted traditional premium financing and its many applications in both estate and business planning. The energy level was high with anticipation from the attendees to learn more about traditional premium financing formats and applications. Julian Movsesian, president of CMS - Succession Capital Alliance stated, "Both new and seasoned advisors attended the event to learn more about applying leverage in the planning for their high net worth clientele." The conference drew advisors, carrier executives, CPAs, and representatives from top legal firms throughout the country. Platinum Sponsors for this year's conference were Pacific Life and NFP, along with Aviva, John Hancock, Axa Equitable, and Sun Life as Gold Sponsors. The agenda encompassed a wide variety of case studies, applications, and strategic planning, which maintained a high level of participation among attendees.

The Advantages of Premium Financing

Premium financing enables high net worth clients to leverage their capital by financing their life insurance premiums with a third-

party lender. It allows clients to continue to seek investment opportunities outside of the policy with their personal capital. Dean De Marco, chief operations officer of Succession Capital Alliance said that premium financing can be an attractive option for high net worth clients to consider. In today's economic environment, clients are experiencing a tightening of credit, which limits their opportunities for business expansion and investment. "In light of this environment, we continue to obtain lending capital and have expanded our lender portfolio," De Marco said. A properly designed premium financing strategy is complex and requires a complete understanding of the many moving parts before the clients take on the risk of acquiring debt. During the conference, speakers continually expressed that the advisor must first establish whether the client has a need for life insurance and whether the client has sufficient assets to pay ongoing premiums. As stated by Tim Whitmore, "A client needs to understand the importance of owning life insurance and must have the resources from which to pay premium. Financing is only an option once this has been established." He explained that any form of permanent life insurance can be financed with the exception of variable products. The premium flexibility of universal life insurance allows for a design that maximizes the benefit of leverage. The conference featured a panel of executives from major life insurance carriers. Mark Teitelbaum, vice president of Advanced Markets for AXA explained the ins and outs of applying leverage to purchase an index universal life (IUL) policy for business purposes. As demonstrated at the conference, premium financing is a strategy that can be applied in both business and estate planning. Using premium financing lowers the cash flow needed to purchase a life insurance policy on the business owner or key employee; supplemental income goes to the policy owner. Premium financing can also be used to purchase a life insurance policy that will provide cash to buy a partner's business interest in the event of death. By leveraging an IUL policy, the premiums can be funded to allow a company to provide a supplemental employee retirement plan (SERP) to employees without tying up assets. It can also provide capital to purchase a business interest using a buy-sell agreement.

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Richard Falzalore, director of estate planning for CMS/SCA, demonstrated how life insurance and premium financing can work together in estate planning. Premium financing can be used to reduce the cost of buying a life insurance policy. In turn, the policy can be used to pay estate taxes upon death, allowing more money to go to the heirs. Conference speakers stressed that premium financing goes well beyond just matching a client's needs to a particular life insurance product; a great deal of due diligence is required to render a leveraged strategy that offers economic merit. Also, lenders are paying very close attention to the borrower's ability to qualify for a loan. Tim Whitmore, vice president business development said, "A client's financial statement, recent tax returns, and investment account statements are essential in initially determining if a client will qualify." Another issue in premium financing is having multiple lender platforms. Movsesian said, "We don't put all of our clients with one bank. Each lender has a different sweet spot. Knowing this, we are able to place a considerable amount of business." Whitmore added, "When you seek a lender, you look for the one that is best suited based on borrowing strength, asset liquidity, and the borrower's ability to service the debt. It is important to understand the difference between being design driven, versus being lender driven." Placing new business is only a part of working with an experienced premium-financing firm. It is equally important to service the client, the loan, and the design each year thereafter. Movsesian said, "What goes on behind the scenes takes so much work. On these large transactions, you need to work on the renewal process. The first year is the easy part. You have to stay on top of it year after year. You will have trouble if the lender decides not to renew the note."

The Life Insurance Industry Perspective

In addition to the educational portion of the conference, executives from the life insurance industry gave their take on the premium financing market and the life insurance marketplace in general. Mark Teitelbaum of AXA said that it is impossible to predict what Congress will do when it comes to estate tax, but nothing

involving overturning estate tax is gaining traction in committee. He said, "Your client will see some kind of transfer tax in the form of capital gains or estate tax." Eric Mills, director of Advanced Markets for Pacific Life, said that the industry is using premium financing to purchase a wide array of permanent life products. Product flexibility and design flexibility have enhanced sales. Randy Zipse, director of Advanced Markets, and Senior Council for John Hancock Life Insurance Company noted that there have been some changes in medical underwriting concerning premium financing. Underwriters want to know how the insured will repay the loan. Zipse stated, "Our underwriters look at the financial stuff more than they did in the past. If you don't include exit strategy, it can be a problem." He warned that agents would have problems with carrier and bank underwriters if they tried to submit premium-financing deals without having some expert guidance.

Cracking the Code to the Elusive CPA Referrals

A panel of CPAs provided some insight on what they are looking for in an insurance partner. Insurance agents can offer to CPA partners a comprehensive suite of insurance and estate planning products and strategies that will enhance the CPA's entire product line. While CPAs will always be skeptical of commission-based vendors, they will embrace partners who show the same client-centric approach that they take. The insurance platform must deliver the same quality, independence, and objectivity that clients have come to expect from their CPAs. How the agent approaches the CPA firm is equally important. The key is not to sell to CPAs, but to educate them. Dean De Marco summed up the theme of the conference by saying, "Premium financing fits perfectly in today's economic environment as clients look for sophisticated services from their advisors. At a time when client service has become more and more important, offering premium financing allows advisors to differentiate themselves from their competitors." □

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