Premium Finance

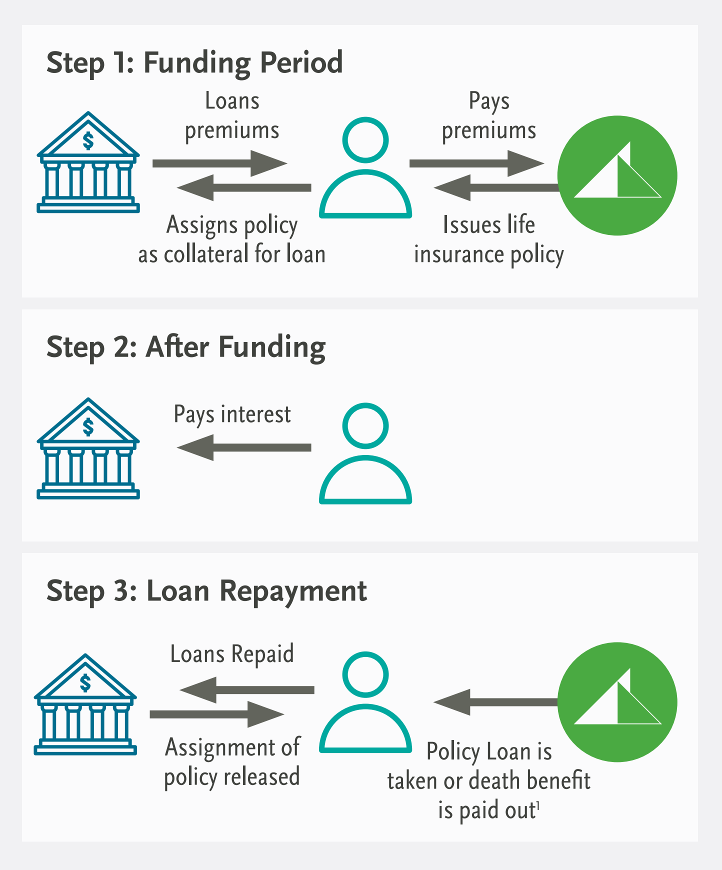
WHY YOU MAY WANT TO CONSIDER PREMIUM FINANCE TO PAY FOR YOUR LIFE INSURANCE COVERAGE

How are you planning to pay for your life insurance premiums? For most people, the answer to this question is either from current income or savings. If you have a net worth over $5 million, you likely have a need for more coverage than most people, and you may have the option to finance your premiums from a third party lender.

Why would I choose to finance premiums?

Think back to the last time you bought real estate, a business, or another significant asset: Did you finance the purchase, or pay for it upfront? You may benefit from financing premiums for similar reasons that you would choose to finance any large purchase.

- You may not want to liquidate illiquid, profitable, or otherwise meaningful assets to make premium payments.
- Your current cash flow may be already committed to other expenses.
- Financing can provide gift-tax leverage, as loans made to your Irrevocable Life Insurance Trust to pay premiums are not subject to gift-tax.
- Financing may allow for the purchase of a large life insurance policy at a lower out of pocket cost when compared to paying premiums directly.



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In addition to the potential benefits, there are also significant risks associated with premium financing that need to be considered before implementing the strategy. Risks associated with premium finance include:

- Interest rate risk – Increases in the interest rate on loans used to finance the premium payments may lead to higher interest costs than anticipated and may require additional collateral to be posted.
- Policy crediting rate risk – The amount of interest credited to the policy will vary. If the amount credited is less than projected additional collateral may need to be posted, or repayment of the loan from policy values may need to be delayed.
- Collateral call risk – Should the value of the collateral posted fall below that required by the lender, there may be additional collateral that needs to be posted. Additionally, should the loan default, any supplemental collateral that has been posted to secure the loan could be called to repay the loan in addition to the cash value of the policy.
- Life insurance carrier risk – Most lenders require that the life insurance carrier maintain a minimum credit rating as assigned by the credit rating agencies (for example A.M. Best, Fitch, and Standard & Poors). If carriers fall below the minimum rating, the lender may have the ability to call the loan. For information on National Life's ratings, see Ratings in Perspective on the National Life website.

Understanding these risks and regularly monitoring the policy performance and interest rate environment may help you mitigate these issues and act quickly to address any changes needed to your program.

Next Steps

Using premium finance to pay for part or all of the premiums on a permanent life insurance policy may be an appropriate funding solution for high net worth individuals and businesses. A complete review of your situation – which includes understanding what you want to accomplish, the types of assets you own, your risk tolerance, and cash flow availability – is a critical next step in moving forward with a premium finance program.

For more information contact your National Life agent.

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1 The ability of a life insurance contract to accumulate sufficient cash value to meet illustrated accumulation goals will be dependent upon the performance of the contract and is not guaranteed. Policy loans and withdrawals reduce the policy's cash value and death benefit and may result in a taxable event. If remaining policy values and scheduled premiums are insufficient, additional out-of-pocket payments may be needed to keep the policy in force. Surrender charges may reduce the policy's cash value in early years.