Private Financing with a Premium Deposit Account Success Story

Recently, a PartnersFinancial principal came to us with a couple of clients.

Client Details: The husband is 62 and the wife is 64, both preferred nonsmokers.

Client Goals: The clients wanted to purchase as much life insurance as they could with $56,000 in annual exclusion gifting for 15 years, with the policy projected to sustain to the younger insured's age 95.

THE PLAN

Our Product team came up with several product alternatives, with death benefits ranging from $2.7 million to $3.6 million. Our Advanced Sales team asked whether the clients had liquidity that they would be willing to loan to the trust for a minimum of 15 years, at which time they would recover the funds with interest. By loaning the funds to the trust, they could supercharge their annual exclusions and potentially purchase significantly more death benefit.

Since the clients were willing to entertain the loan transaction, the Advanced Sales team illustrated a private finance loan. In this situation, the clients entered into a $2.7 million lump sum loan to a grantor trust at the October 2016 long-term AFR of 1.95 percent with interest being accrued in arrears and a balloon note due at the beginning of year 15. The $2.7 million funded Pacific Life's Premium Deposit Fund (PDF) for an annual premium of $408,258 for seven years, purchasing a $10 million Pacific Indexed Estate Preserver 2 policy with an Option C death benefit. Additionally, annual exclusion gifts of $42,000 for 14 years were illustrated and invested in the side fund at 5 percent. At the beginning of year 15, the $2,857,806 basis in the policy was withdrawn from the policy, which, with the projected side fund of $864,300, was more than sufficient to repay the grantor the balloon note of $3.5 million.

THE BOTTOM LINE

During the term of the financing arrangement, the grantor incurred income taxes on earnings in the PDF as well as the side fund, averaging less than $14,000. With the $42,000 annual exclusion gift, we were within their $56,000 annual budget and had funded a $10 million policy in 14 years! This arrangement effectively provided nearly three times the death benefit for the same out-of-pocket cost!

PartnersFinancial®