



SSG COMPANIES

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Leveraging Premium Financing to Acquire Indexed Universal Life Insurance

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Overview

High-net-worth individuals often face a dilemma: they understand the long-term value of large, properly structured life insurance for estate liquidity, wealth transfer, and tax diversification—but they prefer not to disrupt investment portfolios, real estate holdings, or business interests to fund premiums.

Premium financing offers a sophisticated solution, allowing clients to **use leverage to acquire high-value Indexed Universal Life (IUL) policies** while maintaining control of their capital.

Premium financing is not new. For decades, affluent individuals, family offices, and corporations have used it to fund large insurance portfolios efficiently—using third-party bank loans to pay policy premiums, while the policy's cash value and outside collateral secure the loan.

What Is Premium Financing?

Premium financing involves **borrowing funds from a lending institution** to pay the premiums of a life insurance policy, typically designed for permanent coverage such as IUL or Whole Life.

- The client applies for financing through a specialty lender or private bank.
- The lender pays the insurance premiums directly to the carrier.
- The policy is **collateralized by its growing cash value**, with any shortfall secured by outside assets (cash, marketable securities, or a letter of credit).
- Interest on the loan can be **paid annually or accrued** to be settled later.

This structure allows affluent clients to maintain liquidity, enhance after-tax efficiency, and transfer wealth cost-effectively.

Why Indexed Universal Life?

Indexed Universal Life (IUL) is uniquely suited for premium financing due to its flexibility, potential for market-linked growth, and transparent cost structure.

Key advantages include:

- **Market-linked crediting:** Growth tied to an index (e.g., S&P 500) with downside protection through a guaranteed floor.
- **Tax-advantaged accumulation:** Policy cash value grows tax-deferred and can be accessed tax-free via withdrawals and loans.
- **Stable collateral base:** Growing cash value provides an internal collateral source to reduce or eliminate the need for external assets over time.
- **Estate liquidity at a discount:** The death benefit provides tax-free liquidity to pay estate taxes, replace wealth, or fund buy-sell obligations at a fraction of the economic cost compared to self-funding.

How the Leverage Works

Premium financing magnifies purchasing power by **using low-cost debt to acquire an appreciating, tax-advantaged asset**.

Example:

A client in their mid-50s needs a \$20 million life insurance policy for estate liquidity. Annual premiums total \$1 million for 10 years.

Instead of liquidating investments or business assets, the client finances the premiums through a bank loan at 6% interest.

Year	Loan Balance	Collateral Value (Policy CV)	Net Out-of-Pocket (Interest Only)
1	\$1,000,000	\$100,000	\$60,000
5	\$5,000,000	\$2,000,000	\$60,000/year
10	\$10,000,000	\$8,000,000	\$60,000/year
15	\$10,000,000	\$11,000,000	Loan repaid or refinanced

By year 15, the policy's cash value may fully secure the loan, enabling **self-collateralization** or repayment through tax-free withdrawals or policy loans.

Strategic Benefits

1. Preserve Liquidity and Investment Capital

Avoid liquidating high-performing or illiquid assets to fund premiums. Continue compounding capital elsewhere while leveraging the insurance structure for tax-free growth.

2. Enhance Return on Equity

By using low-cost financing, the client's internal rate of return (IRR) on death benefit relative to cash outlay can be **significantly higher** than if paid in cash.

3. Estate Tax Liquidity at a Discount

The death benefit provides the heirs with instant, tax-free liquidity to pay estate taxes or buy out interests—effectively **creating liquidity at a discount** versus paying with post-tax dollars.

4. Flexibility and Control

Interest payments, loan terms, and repayment options can be tailored. Policies can be held in **Irrevocable Life Insurance Trusts (ILITs)** for estate exclusion, with the trustee as borrower.

Risks and Considerations

Premium financing is not appropriate for everyone. It requires disciplined oversight and coordination among legal, tax, insurance, and lending professionals.

Key considerations include:

- **Interest rate risk:** Rising loan rates may affect long-term performance.
 - **Policy performance risk:** Lower-than-expected index returns can reduce collateral efficiency.
 - **Collateral calls:** If policy values lag or rates rise, the lender may require additional collateral.
 - **Exit strategy:** Plans for loan repayment or policy self-sufficiency must be clearly defined.
 - **Suitability:** Typically reserved for clients with \$5–10M+ in net worth and sufficient liquidity to cover interest and collateral needs.
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Conclusion

Premium financing enables affluent individuals to **leverage credit to acquire life insurance as a financial asset**—preserving liquidity, maximizing tax efficiency, and transferring wealth cost-effectively.

When structured properly, the combination of **Indexed Universal Life’s growth potential and the strategic use of leverage** can deliver one of the most capital-efficient estate liquidity solutions available.

Summary: The Premium Financing Equation

Component	Function
Loan	Funds premiums while preserving client capital
IUL Policy	Builds cash value and provides tax-free death benefit
Collateral	Secures the loan until the policy self-collateralizes
Exit Strategy	Repay loan from policy values, refinancing, or estate proceeds

For Advisors and Clients:

Premium financing should be approached as a collaborative strategy—integrating **insurance design, credit structure, and estate planning** to produce efficient, long-term results.
