

Case Study:

Example of a married couple, both aged 55, will provide context to the narrative.

The couple, successful real estate developers with three children, knew they wanted to make sure their children were taken care of, but had been put off by the significant liquid contribution necessary to acquire the insurance they wanted. Neither had any current coverage, something they had been concerned about. GB Financial was brought in to provide a solution. GB Financial discussed their goals and showed various options for providing the death benefit needed through a variety of insurance products.

The couple, with a thorough understanding of leverage realized the opportunity cost gained by financing the insurance. Educating and working together with the client's current estate planning team, GB Financial put together a diversified financed life insurance structure, implemented it, and continues to manage it years later.

Client Specifications:

- Male age 55, Female Age 55
- Estate \$35 million
- Asset mix 70% illiquid, 30% liquid, 0% other
- Liquidity need at death \$9.5million
- Standard health

When designing a premium-financing scenario, it is important to have a good understanding of the client's needs, the client's asset mix and the overall estate plan. The initial design is then created by structuring a life insurance policy that meets the clients' objectives. Careful consideration is also given to designing the specific lending structure so that the result allows for the most balanced relationship between the policy and the premium finance loan. The proposal that is then prepared for the client's review should run the transaction through multiple interest rate environments and illustrate the impact of changing rates. In addition, the clients should be shown what the structure looks like if 5 years of interest is paid current and not accrued and what 10 years of interest being paid current looks like if not accrued. These various scenarios are a helpful tool for the clients to understand the correlation between a small financial commitment and the long term viability of the transaction as well as the ability of the transaction to weather uncertain interest rate environments.



The following definitions of terms refer to the chart on the following page which shows the transaction as explained under the current cost of borrowing.

1) Premium: Amount paid to insurance carrier each year for the number of years noted in the Economic Benefit Analysis. This amount is borrowed in full by the ILIT.

2) Current INT: The current interest cost, which is the operating cost of the loan on an annual basis.

3) Rate: Current cost of borrowing for specific year.

4) Total Loan: This is the principle loan, which is the accumulation of the borrowed premium. The first year includes initial fee.

5) Cumulative Loan: Full amount borrowed by the ILIT for loan plus interest/fees since the beginning of the policy.

6) CSV: CSV stands for the "Cash Surrender Value." The CSV is the net equity of the policy. This is calculated annually at the end of each calendar year allowing us to show you the how much cash is in the policy after yearly costs are taken out.

7) Outside Collateral Needed: This is the difference between the *cumulative loan* and the *cash surrender value*. It is an amount the client needs to post above the CSV. When this number is negative, the cost of paying back the loan is greater than the net equity of the policy after withdrawal fees are paid back.

8) DB: *Death Benefit*, amount paid from the insurance policy to the ILIT.

9) EB: *Economic Benefit*, amount of benefit provided after the loan has been paid off from the death benefit. GBFGPreservation® is structured around what EB is right for the client's needs. It is the starting point of the transaction, rather than a remainder.

Standard 55 Couple				Economic Benefit Analysis: Current Cost of Borrowing				Goal =	\$10,000,000	
YR	Premium	Current INT	Rate	Total Loan	Cumulative Loan (EOY)	CSV (EOY)	Outside Collateral Needed (EOY)	DB	Economic Benefit	
1	458,975	21,150	4.500%	463,565	484,715	342,599	-142,116	10,422,610	9,937,895	
2	458,975	43,265	4.500%	927,130	991,545	803,042	-188,503	10,875,052	9,883,507	
3	458,975	66,389	4.500%	1,390,694	1,521,499	1,292,517	-228,982	11,358,926	9,837,427	
4	458,975	90,569	4.500%	1,854,259	2,075,632	1,815,577	-260,055	11,876,385	9,800,753	
5	458,975	115,851	4.500%	2,317,824	2,655,048	2,374,516	-280,532	12,429,724	9,774,676	
6	458,975	142,287	4.500%	2,781,389	3,260,899	2,981,117	-279,782	13,030,724	9,769,825	
7	458,975	169,929	4.500%	3,244,953	3,894,393	3,629,284	-265,109	13,673,290	9,778,897	
8	458,975	198,832	4.500%	3,708,518	4,556,789	4,321,812	-234,977	14,360,217	9,803,428	
9	458,975	229,054	4.500%	4,172,083	5,249,408	5,061,688	-187,720	15,094,492	9,845,084	
10	458,975	260,445	4.500%	4,631,058	5,968,828	5,852,099	-116,729	15,879,303	9,910,475	
11	0	272,328	4.500%	4,631,058	6,241,156	6,263,789	0	16,285,392	10,044,236	
12	0	284,753	4.500%	4,631,058	6,525,908	6,702,754	0	16,718,757	10,192,849	
13	0	297,745	4.500%	4,631,058	6,823,653	7,170,754	0	17,181,156	10,357,503	
14	0	311,329	4.500%	4,631,058	7,134,982	7,669,629	0	17,674,429	10,539,447	
15	0	325,534	4.500%	4,631,058	7,460,516	8,200,553	0	18,200,553	10,740,037	
16	0	340,386	4.500%	4,631,058	7,800,902	8,761,533	0	18,761,533	10,960,631	
17	0	355,916	4.500%	4,631,058	8,156,818	9,357,878	0	19,357,878	11,201,060	
18	0	372,155	4.500%	4,631,058	8,528,972	9,991,098	0	19,991,098	11,462,126	
19	0	389,134	4.500%	4,631,058	8,918,107	10,662,780	0	20,662,780	11,744,673	
20	0	406,889	4.500%	4,631,058	9,324,995	11,374,523	0	21,374,523	12,049,528	
21	0	425,453	4.500%	4,631,058	9,750,448	12,125,963	0	22,125,963	12,375,515	
22	0	444,864	4.500%	4,631,058	10,195,313	12,919,841	0	22,919,841	12,724,528	
23	0	465,161	4.500%	4,631,058	10,660,474	13,756,933	0	23,756,933	13,096,459	
24	0	486,384	4.500%	4,631,058	11,146,858	14,637,288	0	24,637,288	13,490,430	
25	0	508,575	4.500%	4,631,058	11,655,433	15,561,419	0	25,561,419	13,905,986	
26	0	531,779	4.500%	4,631,058	12,187,212	16,528,383	0	26,528,383	14,341,171	
27	0	556,042	4.500%	4,631,058	12,743,254	17,535,860	0	27,535,860	14,792,606	
28	0	581,411	4.500%	4,631,058	13,324,665	18,581,281	0	28,581,281	15,256,616	
29	0	607,938	4.500%	4,631,058	13,932,603	19,663,490	0	29,663,490	15,730,887	
30	0	635,675	4.500%	4,631,058	14,568,278	20,779,587	0	30,779,587	16,211,309	
								Client Contribution:	\$0.00	

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The above is not an offer for a loan or insurance, but for illustrative purposes.

This current Economic Benefit Analysis depicts how the transaction will perform based on today's conditions and the assumption that all premiums and interest are accrued and the client is purely posting collateral.

The net-economic benefit, which is the death benefit minus the cost of acquisition (in this case repayment of the loan) is the far right column and demonstrates a steady long-term growth. The collateral to be posted in addition to the policy are the amounts shown in red. These are cumulative numbers on an annual end-of-year basis. It is what the client has "at risk".

Below is a risk analysis comparison of varying interest rates and their impact on the amount of collateral needed. In addition it shows the impact of paying 5 or 10 years of interest.

GBFGPreservation®

Standard 55 Couple		EBA For Various Cash Differentials				
YR	Premium	OCN Current	OCN Reg	OCN Alt	OCN No Int. 5 Yr.	OCN No Int. 10 Yr.
1	458,975	-142,116	-142,116	-142,116	-120,966	-120,966
2	458,975	-188,503	-188,503	-188,503	-124,088	-124,088
3	458,975	-228,982	-228,982	-228,982	-98,177	-98,177
4	458,975	-260,055	-260,055	-260,055	-38,682	-38,682
5	458,975	-280,532	-280,532	-280,532	0	0
6	458,975	-279,782	-212,433	-327,211	0	0
7	458,975	-265,109	-173,552	-372,066	0	0
8	458,975	-234,977	-198,505	-414,718	-12,131	0
9	458,975	-187,720	-228,917	-454,746	-27,668	0
10	458,975	-116,729	-175,545	-486,814	-33,755	0
11	0	0	0	-460,741	0	0
12	0	0	0	-430,852	0	0
13	0	0	0	-396,813	0	0
14	0	0	0	-358,298	0	0
15	0	0	0	-315,740	0	0
16	0	0	0	-272,834	0	0
17	0	0	0	-226,080	0	0
18	0	0	0	-175,884	0	0
19	0	0	0	-122,694	0	0
20	0	0	0	-67,067	0	0
21	0	0	0	-11,657	0	0
22	0	0	0	0	0	0
23	0	0	0	0	0	0
24	0	0	0	0	0	0
25	0	0	0	0	0	0
26	0	0	0	0	0	0
27	0	0	0	0	0	0
28	0	0	0	0	0	0
29	0	0	0	0	0	0
30	0	0	0	0	0	0

Glossary

- 1) OCN Current: Amount of LC if interest rates continue at current rate.
- 2) OCN Reg: Amount of LC with interest run at historical cost of borrowing.
- 3) OCN Alt: Amount of LC with interest run at alternative interest rate.
- 4) OCN No Int. 5 Yr: Amount of LC if interest is paid out-of-pocket for the first five years.
- 5) OCN No. Int. 10 Yr.: Amount of LC if interest is paid out-of-pocket for the first ten years.

OCN: Outside Collateral Needed

Many clients address the collateral and benefit piece in their own way. Some will post collateral and prefer not to contribute to the transaction at all, leaving their confidence in interest rates and crediting rates. Others may wish to pay some of the interest or even some of the premium. If they do this they will see a reduction in the amount of collateral posted and in some cases a more stable and better long-term benefit. One of the critical components is having the flexibility in the lending package so those decisions can be made on an annual basis and not upfront.



GB Financial Group

The GB Financial Group Inc.
781.237.4657 | www.gbfinancial.com
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