GB Financial Group

Case Study:

Example of a male age 55 will provide context to the narrative.

The client, a successful executive and a father of two young children knew he had a significant need for insurance, but had been put off by the significant liquid contribution necessary to acquire the amount needed. He had a small term policy, but was severely underinsured leaving both his family and his business vulnerable. GB Financial was brought in to provide a solution. GB Financial analyzed his current insurance and discussed the various options for providing the death benefit needed through a variety of insurance products.

A well versed investor, the client 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:

- Age 55
- Estate $25million
- Asset mix 65% illiquid, 30% liquid, 5% 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 client's 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 client 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 client 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.

	Sample 55 Male			Economic Benefit Analysis: Current Cost of Borrowing				Goal =	$10,000,0
YR	Premium	Current INT	Rate	Total Loan	Cumulative Loan (EOY)	CSV (EOY)	Outside Collateral Needed (EOY)	DB	Economic Benefit
1	670,753	30,486	4.50%	677,460	707,946	393,963	-313,983	10,553,963	9,846,0
2	670,753	62,343	4.50%	1,354,921	1,447,750	963,285	-484,465	11,123,285	9,675,5
3	670,753	95,634	4.50%	2,032,381	2,220,844	1,548,431	-672,414	11,708,431	9,487,5
4	670,753	130,424	4.50%	2,709,841	3,028,728	2,099,863	-928,865	12,309,863	9,281,1
5	670,753	166,778	4.50%	3,387,301	3,872,967	2,692,251	-1,180,716	12,922,251	9,049,2
6	670,753	204,769	4.50%	4,064,762	4,755,196	3,547,865	-1,207,331	13,757,865	9,002,6
7	670,753	244,470	4.50%	4,742,222	5,677,126	4,431,242	-1,245,884	14,591,242	8,914,1
8	670,753	285,956	4.50%	5,419,682	6,640,543	5,300,612	-1,339,931	15,420,612	8,780,0
9	670,753	329,310	4.50%	6,097,142	7,647,313	6,164,026	-1,483,287	16,244,026	8,596,7
10	670,753	374,615	4.50%	6,774,603	8,699,388	7,463,181	-1,236,208	17,463,181	8,763,7
11	0	391,472	4.50%	6,774,603	9,090,861	8,056,353	-1,034,507	18,056,353	8,965,4
12	0	409,089	4.50%	6,774,603	9,499,949	8,641,297	-858,653	18,641,297	9,141,3
13	0	427,498	4.50%	6,774,603	9,927,447	9,218,771	-708,676	19,218,771	9,291,3
14	0	446,735	4.50%	6,774,603	10,374,182	9,781,050	-593,132	19,781,050	9,406,8
15	0	466,838	4.50%	6,774,603	10,841,021	10,625,612	-215,408	20,625,612	9,784,5
16	0	487,846	4.50%	6,774,603	11,328,866	11,451,056	0	21,451,056	10,122,1
17	0	509,799	4.50%	6,774,603	11,838,665	12,254,886	0	22,254,886	10,416,2
18	0	532,740	4.50%	6,774,603	12,371,405	13,033,496	0	23,033,496	10,662,0
19	0	556,713	4.50%	6,774,603	12,928,119	13,778,060	0	23,778,060	10,849,9
20	0	581,765	4.50%	6,774,603	13,509,884	14,930,924	0	24,930,924	11,421,0
21	0	607,945	4.50%	6,774,603	14,117,829	16,026,792	0	26,026,792	11,908,9
22	0	635,302	4.50%	6,774,603	14,753,131	17,078,082	0	27,078,082	12,324,9
23	0	663,891	4.50%	6,774,603	15,417,022	18,072,999	0	28,072,999	12,655,9
24	0	693,766	4.50%	6,774,603	16,110,788	19,011,343	0	29,011,343	12,900,5
25	0	724,985	4.50%	6,774,603	16,835,773	20,509,962	0	30,509,962	13,674,1

This current Economic Benefit Analysis depicts how the transaction will perform based on todays 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.

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Sample 55 Male	EBA For Various Cash Differentials					
YR	Premium	OCN Current	OCN Reg	OCN Alt	OCN No Int. 5 Yr.	OCN No Int. 10 Yr.
1	670,753	-313,983	-313,983	-313,983	-283,498	-283,498
2	670,753	-484,465	-484,465	-484,465	-391,636	-391,636
3	670,753	-672,414	-672,414	-672,414	-483,950	-483,950
4	670,753	-928,865	-928,865	-928,865	-609,978	-609,978
5	670,753	-1,180,716	-1,180,716	-1,180,716	-695,050	-695,050
6	670,753	-1,207,331	-1,076,279	-1,275,588	-669,325	-516,896
7	670,753	-1,245,884	-1,038,953	-1,399,725	-653,182	-310,979
8	670,753	-1,339,931	-1,161,804	-1,598,322	-690,071	-119,070
9	670,753	-1,483,287	-1,355,691	-1,866,952	-773,698	0
10	670,753	-1,236,208	-1,063,523	-1,767,763	-464,201	0
11	0	-1,034,507	-651,117	-1,728,447	-227,761	0
12	0	-858,653	-184,595	-1,730,592	-15,603	0
13	0	-708,676	0	-1,775,431	0	0
14	0	-593,132	0	-1,872,804	0	0
15	0	-215,408	0	-1,727,473	0	0
16	0	0	0	-1,643,215	0	0
17	0	0	0	-1,625,041	0	0
18	0	0	0	-1,679,227	0	0
19	0	0	0	-1,817,426	0	0
20	0	0	0	-1,600,291	0	0
21	0	0	0	-1,496,297	0	0
22	0	0	0	-1,496,392	0	0
23	0	0	0	-1,615,943	0	0
24	0	0	0	-1,858,936	0	0
25	0	0	0	-1,612,533	0	0
26	0	0	0	-1,516,721	0	0
27	0	0	0	-1,605,297	0	0
28	0	0	0	-1,865,915	0	0
29	0	0	0	-2,311,305	0	0
30	0	0	0	-2,028,759	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.