



Life Insurance Premium Financing

For many investors, the primary purpose of life insurance is to provide financial protection to surviving spouses, children and significant others. However, when life insurance is integrated with a well-thought-out estate plan, the benefits can multiply. One common use of life insurance is for estate tax liquidity. Large estates can be subject to significant estate taxes at the death of a wealthy individual. After reviewing and employing other estate planning techniques, many wealthy individuals determine that life insurance, held outside the client's estate, is a viable option to provide liquidity or financial flexibility to minimize the impact of the estate tax liability.

Business owners also may benefit from the strategic use of life insurance. Upon the death of a business owner, life insurance proceeds may provide an infusion of liquidity into the company to help keep operations running smoothly while the management team seeks a replacement. In the case of a business with multiple owners, a properly structured and funded buy-sell agreement permits a smooth transfer of the business when one or more owners retire, become disabled or die. Life insurance is often the most cost-effective way to fund the buy-sell agreement and thus, protect and extend the life of the business.

While a life insurance policy may provide the liquidity needed at the time of death, the insurance premiums during one's lifetime can be very high, and may also be subject to gift taxes. BNY Mellon offers clients a Life Insurance Premium Financing solution that potentially can cover both the annual premiums and the loan interest, thereby resulting in the ability to acquire the policy in a tax-efficient manner. The loan is secured by the net cash surrender value of the life insurance policy and the assets in a client's securities account creating yet an additional benefit—the client's current portfolio allocation and long-term investment strategy to remain intact.

Benefits to the Client

- Borrowed funds provide for tax-efficient acquisition of life insurance policy.
- Opportunity exists to pledge collateral in lieu of liquidating assets or using personal cash flow to acquire policy.
- Insurance acquired at relatively young age may result in lower overall costs to client.
- Potential for sustained positive arbitrage between the loan interest rate and crediting rate in the policy—alone, or in conjunction with other estate planning techniques—creates an environment where the loan may be tax efficiently repaid during the insured's lifetime.

General Guidelines

Borrower	– Typically, an Irrevocable Life Insurance Trust (ILIT)
Client Profile	– Typically, \$25 million net worth, exclusive of private business valuation
Guarantor	– Insured or Pledgor of collateral may be required to guarantee the loan
Tenor	– Demand. Commitments available but pricing will be adjusted for duration.
Rate	– BNY Mellon Monthly LIBOR + spread with adjustments for duration and client relationship – Fixed-rate options provided by BNY Mellon Global Markets Group ¹
Collateral	– Assignment of the cash surrender value and death benefit of a qualifying Life Insurance policy at standard advance rates plus assets custodied in a Pershing, LLC or Pershing Advisor Solutions account
Collateral Maintenance	<ul style="list-style-type: none"> – The Loan to Collateral Value Advance Rate must be met for each advance of funds. Thereafter, in the event the Loan to Collateral Value exceeds the Watermark Rate, the client will be asked either to provide more collateral or to reduce the loan balance. – The Advance Rate is 95% against the net cash surrender value of the qualifying life insurance policy – The Advance and Watermark Rates for qualifying assets in the securities account are typically: <ul style="list-style-type: none"> · Stocks: 70%/80%² · Bonds: 80%/85%
Liquidity for Grantor/Pledgor	– Insured/Pledgor must have sufficient unencumbered liquidity to meet peak collateral maintenance during lifecycle of transaction where exit is contemplated. If strategy is contemplated without inherent exit, unencumbered liquidity equal to 50% of the commitment is required at all times.
Availability	– Some state's laws restrict our ability to offer this product nationwide. Please contact your private banker to determine if this product is available in your state.
Know Your Customer	<ul style="list-style-type: none"> – BNY Mellon's Know Your Customer (KYC) program includes client suitability requirements associated with its Life Insurance Premium Financing capability. As a result, a lending representative of the Bank must participate in an in-person meeting with the client early in the financing process. – BNY Mellon is a relationship lender, therefore, only transactions that have the opportunity to develop into a full wealth management relationship with an advisor who has a custodial and/or clearing relationship with Pershing, LLC or Pershing Advisor Solutions will be considered.

¹ Hedging services provided by The Bank of New York Mellon, a wholly owned subsidiary of The Bank of New York Mellon Corporation.

² Concentrated positions, securities below \$10/share and non-investment grade securities in a securities account may result in a modified Advance rate, or no Advance rate.

Insurance Parameters

Target Minimum Policy Size	<ul style="list-style-type: none">– \$10 million (death benefit)
Carrier Financial Strength Ratings	<ul style="list-style-type: none">– A.M. Best A, plus either Moody's A3 or S&P A- (for demand facilities)– Financial strength minimums and watermarks may change for committed facilities– If an insurance company's financial strength rating falls below the minimum rating as defined above, the net cash surrender value in the policy will be excluded from the collateral.

Documentation

Required Documentation to Begin Life Insurance Financing Process	<ul style="list-style-type: none">– Explanation of strategy/recommendation and requested financing structure– Personal Financial Statement of Insured/Pledgor– Three years federal tax returns, including all schedules, of the Insured/Pledgor/Settlor– Tax return of borrower, if applicable– Formation documentation for borrowing entity– Verification of majority of the liquidity (copies of investment statements)– Life Insurance Illustration, including all contemplated riders– Summary analysis, if available– Anticipated loan exit strategy– Completion of a Know Your Customer form (provided by BNY Mellon Wealth Management) and copy of current driver's license– Insurance policy or declarations page (if existing policy)– Name, address, and phone number of legal advisor, tax advisor, trustee of any trust, and insurance agent
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BNY Mellon Wealth Management does not provide tax advice. Clients must seek professional advice from a qualified tax professional familiar with their particular circumstances and consult with a knowledgeable life insurance professional for advice on life insurance matters. BNY Mellon requires that clients engage a qualified financial advisor in order to provide this service.

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