EQUITABLE

Commercial premium financing

Advanced Markets

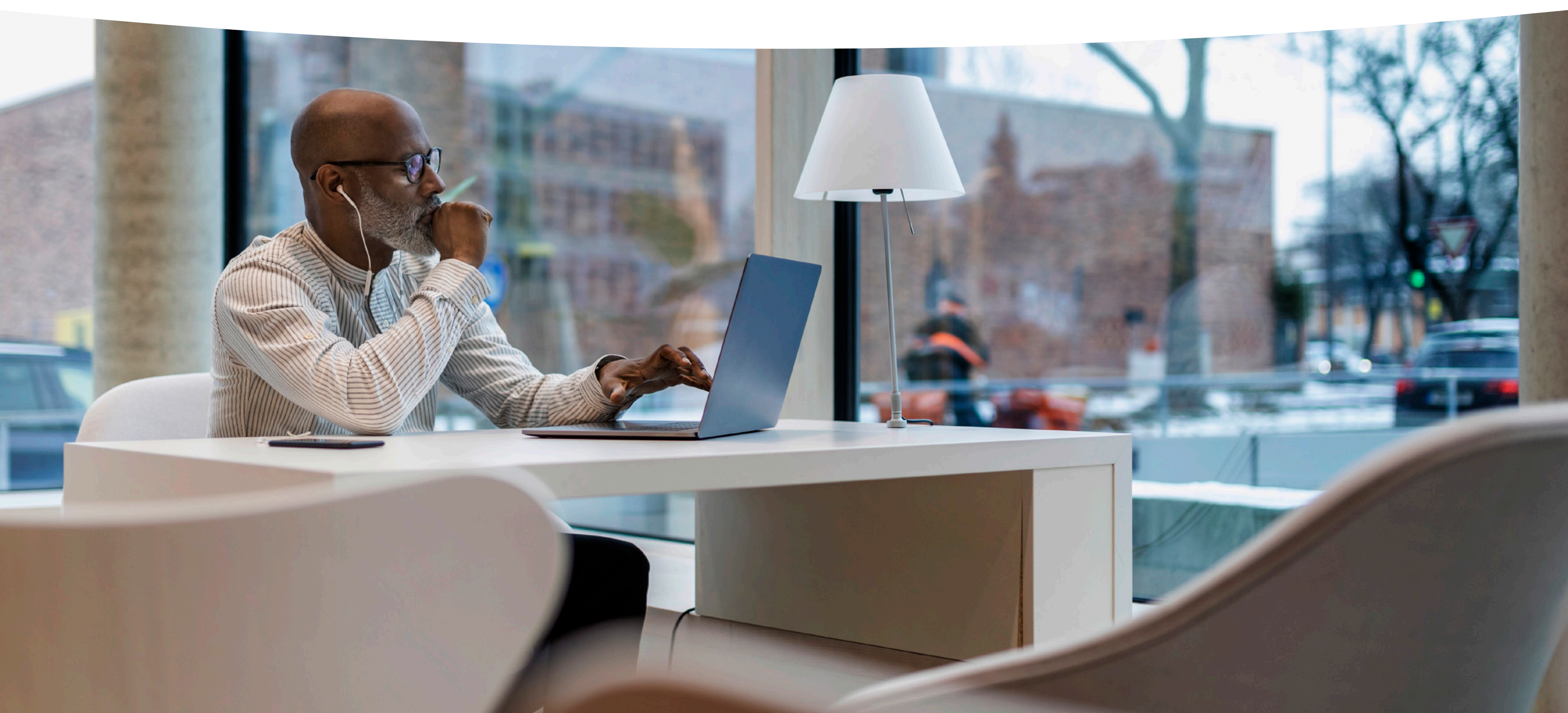
Exit strategies

The conversation about how to roll out of a commercial premium finance arrangement can be very unpleasant if a contingency plan is not already in place.

If prior to the insured's death, the transaction passes a crossover point when financed premiums become more expensive than paying for them outright, the borrower may elect to terminate the loan and repay the lender.

Typically, an irrevocable life insurance trust (ILIT) is the owner, beneficiary and borrower when life insurance policies are financed and any early repayment would come from ILIT funds. Additionally, loans and withdrawals may reduce the face amount of the policy and increase the chance a policy may lapse. The issue is how best to fund the ILIT so it has options aside from the insured's death to satisfy the loan debt. Equitable can help you be proactive in this area by providing the following list of possible exit strategies to help fund an ILIT.

If you are planning to finance premiums, you want to make sure you have an exit strategy in place from the start.



Exit strategy options

1 Prefund the ILIT

Client profile:
Anyone

Overview:
Gifts are made to fund the borrower ILIT to pay loan interest and possibly create a side fund. That borrower ILIT side fund may be used in the future to pay off the loan principal.

2 Cash surrender value of policy

Client profile:
Insured purchases a life insurance product with more upside cash value potential than traditional fixed UL product, such as an IUL policy sold as a non-MEC (modified endowment contract) policy.

Overview:
Life insurance policy cash surrender value may be used to repay all or a portion of the loan, while leaving the policy intact after the loan is repaid. The type of life insurance product and the premium-funding stream are important to consider. Although it is an option to take loans and withdrawals from the life insurance policy's cash surrender value to repay the loan, the cash surrender value may not be sufficient to completely repay the lender and leave the necessary death benefit to the ILIT.

3 Grantor retained annuity trust (GRAT)

Client profile:
Insured owns highly appreciating and/or income-producing assets.

Overview:
An asset is transferred to a GRAT and the grantor retains a fixed annuity for a certain term. The taxable gift to the GRAT is calculated as the fair market value of the asset, minus the grantor's retained annuity interest. The terms of both the GRAT and the loan can be matched so that remainder interests of the asset originally gifted to the GRAT will benefit the borrower ILIT at the same time as loan maturity. Those assets can then be used to repay the loan.

4 Installment sale to intentionally defective irrevocable trust (IDIT)

Client profile:
Insured owns highly appreciating and/or income-producing assets.

Overview:
An IDIT sale is an arrangement in which a transferor makes a deferred sale of an appreciating or income-producing asset to an irrevocable trust. The borrower ILIT is named the beneficiary of the IDIT. At the end of the deferred sale term, when the IDIT makes the final installment or balloon payment to the transferor, any remaining assets in the IDIT will benefit the ILIT. Those assets can then be used to repay the loan.

5 Charitable lead trust (CLT)

Client profile:
Insured is charitably inclined and owns highly appreciating and/or income-producing assets.

Overview:
CLTs may be utilized in the same way a GRAT or sale to an IDIT may be. The client donor transfers an asset to the CLT and the trust distributions are made to a charity not less than annually over the term of the trust. The ILIT is named the remainder beneficiary of the CLT, and at the end of the CLT term, the remainder assets pass to the ILIT. Although CLTs are subject to complex rules and limitations, a CLT may meet client goals involving charitable gifts and reduce an insured's taxable estate.

Exit strategy options *(continued)*

6 Grantor loan to ILIT

Client profile:
Insured has the assets to repay the loan, but does not have the gifting capacity to get the assets into the ILIT.

Overview:
Grantor makes a lump-sum loan to the ILIT. Interest rate is locked in at the Applicable Federal Rate (AFR) in effect at the time the loan is made. Either the ILIT pays interest to the grantor annually or the interest is accrued. Assets loaned to ILIT are used to repay the premium lender.

7 Death of the insured

Client profile:
Anyone

Overview:
Assuming the insured dies during the term of the loan, the loan balance is paid off with the death benefit proceeds. The addition of a return of premium rider is often used with this strategy in order to provide an adequate net death benefit to beneficiaries once the loan is repaid. Although this may be viewed as a common exit strategy, long-term loans carry additional risk, making it important to consider an alternative strategy, especially where the life expectancy of the insured is greater than 10–15 years.

Important considerations

Equitable is neither endorsing nor suggesting any specific exit strategy be implemented. As with any planning arrangement, the listed exit strategies involve certain risks and assumptions that may or may not be realized. It is advised that you discuss exit strategies with your financial professionals, including tax and legal, in order to determine the appropriate one. Any tax information provided in this document is not intended as legal or tax advice, nor is it intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) or matter(s) addressed, and you should seek advice based on your particular circumstances from an independent tax advisor.

Please note that borrowing funds to pay for insurance premiums may be completed only with a properly licensed lending institution. Neither Equitable Financial Life Insurance Company (NY, NY); Equitable Financial Life Insurance Company of America, an AZ stock company with an administrative office located in Charlotte, NC; nor its agents are licensed by any state to act as a lender. The life insurance purchase and the loan are separate and distinct transactions conducted by separate entities. A person may qualify for the loan, but not the insurance, or vice versa.

Loans and withdrawals will reduce the policy's cash value and death benefit, may cause certain policy benefits or riders to become unavailable, and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values. In addition, withdrawals, policy loans and any accrued loan interest may cause the policy to lapse even if the client is in a period of coverage under the no-lapse guarantee rider.

For more information, contact your financial professional or visit equitable.com.

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