Lincoln Financial Group®
You're In Charge®

Leveraging assets to protect and create wealth

Private and commercial premium finance case studies

Lincoln WealthAdvantage® Indexed UL and *Lincoln WealthPreserve®* Survivorship IUL

Life insurance is a powerful solution to help individuals protect, build, and transfer wealth. In today's low interest rate environment, your clients could leverage historically low rates to finance a policy with strong cash value growth potential. There are two different premium financing strategies that can give your clients the financial flexibility to achieve their goals.

Two types of premium financing arrangements

1. Private (self-financing)

In the typical private premium financing arrangement, the grantor loans funds to an irrevocable life insurance trust (ILIT), structured as a grantor trust, and the trustee uses the borrowed funds to purchase life insurance on the grantor's life.

- The loan interest payments can be made using assets in the trust or the grantor can make cash gifts to the ILIT. Trust pays annual loan interest based on the applicable Federal rate (AFR). The trust also makes principal repayments during the grantor's lifetime or at death.
- The trust pays premium to the life insurance company.
- Death benefit pays to the trust.
- Remaining trust assets pass to the trust beneficiaries.

2. Commercial

In a typical commercial premium financing arrangement the trustee borrows from a third party lender to purchase life insurance on the grantor's life. The policy cash value can be used as collateral, although additional collateral may be required by the lender.

- The grantor applies for a loan. Upon approval, the lender loans funds to the trust.
- The trust purchases life insurance.
- Annual interest is paid to the lender*. Principal payments may be made during lifetime or at death of the insured.
- At an agreed upon date or upon death the lender is repaid and the trust receives any remaining death benefit proceeds.

*For demand loans, the interest rate is the blended AFR, which is released each June. For term loans, the loan rate will be the short-, mid-, or long-term AFR, depending upon the term of the loan. It is subject to annual fluctuation throughout the entire term of the loan.

Insurance products issued by:
The Lincoln National Life Insurance Company

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Meet Sal and Lisa

Both age 65 and healthy nonsmokers
They're married with 4 adult children.

Sal and Lisa have a net worth of $9.65 million, which includes their investment portfolio, real estate, mineral interest and an extensive art collection. As their assets continue to appreciate, they are concerned that their estate may exceed the lifetime exemption amount. In 2016 the lifetime exemption is $10.9 million for a couple.

Sal and Lisa want to ensure that their children aren't forced to sell assets to pay estate taxes.

Their challenges

Tax risk — Sal and Lisa are concerned that their legacy will exceed their lifetime exemption and create estate tax exposure for their heirs.

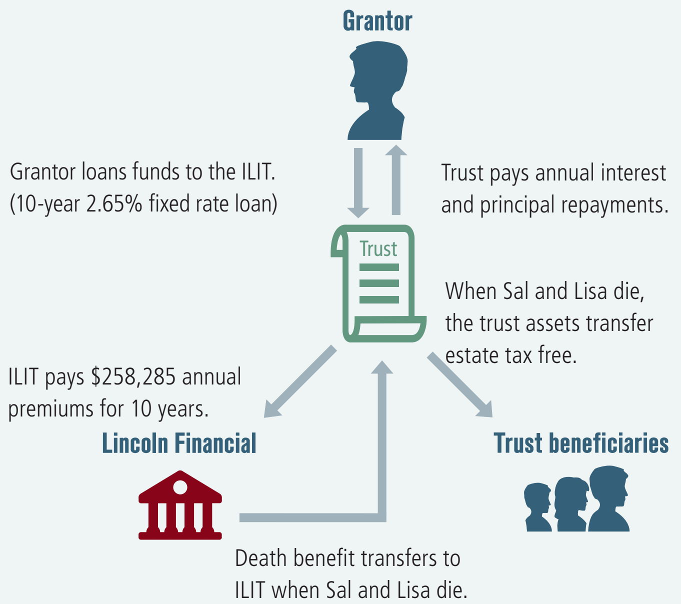
Estate liquidity — They want to provide sufficient funds to their children for estate taxes.

The wealth protection strategy

Sal and Lisa's advisor discusses private premium financing of a *Lincoln WealthPreserve* SIUL policy on both their lives, with an ILIT as the death benefit beneficiary. The policy has an initial death benefit of $10 million. Sal will be the grantor, providing a 10-year fixed rate loan of $2.6 million to the ILIT to pay the policy's $258,285 premium every year for 10 years. This helps to preserve the couple's annual gift tax exemption.

Because the interest rate on the loan is 2.65% (the current long-term Applicable Federal Rate), Sal and Lisa leverage low interest rates to help them increase wealth. By using the 1-Year Point-to-Point Capped Account indexing strategy, their policy offers growth potential tied to S&P 500 Index performance up to a capped amount with the downside protection of a 1% crediting rate.*

How the strategy works



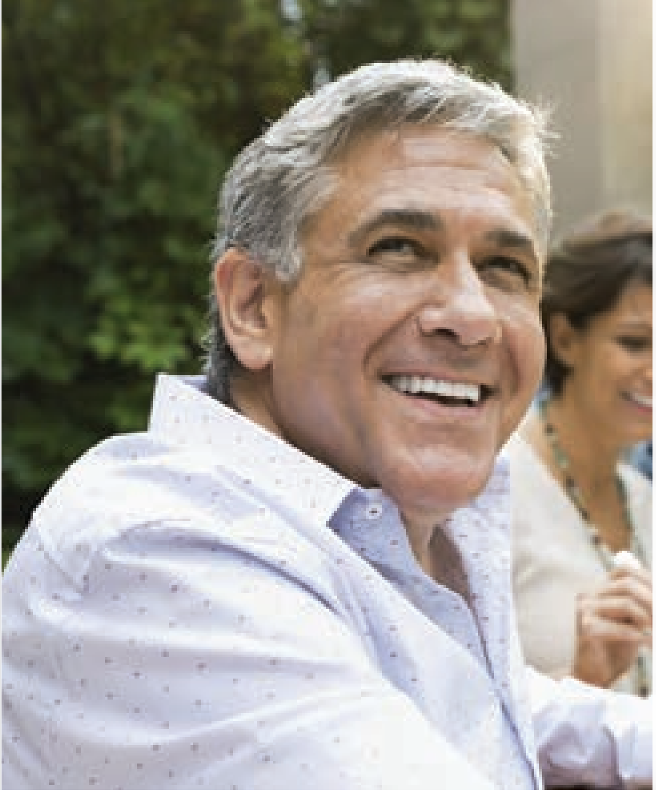
The outcome

This strategy helps to protect and increase the family's wealth with a policy that offers tax-deferred growth opportunities, downside protection and financial flexibility.

- Sal and Lisa retain their lifetime exemption and their annual gift exclusion, enabling them to protect other legacy assets from estate taxation.
- Unlike a strategy using a commercial loan, Sal and Lisa don't need to obtain a lender's approval or meet their collateral requirements.
- They leverage a 2.65% borrowing rate to tap into growth linked to the S&P 500 Index up to a capped amount.
- They have downside protection of a minimum 1% crediting rate.
- A $10 million death benefit will transfer from the trust to their children's estate income tax-free.
- The trust makes loan repayments during the grantor's lifetime or at death.

Illustration assumes a male and female, age 65, preferred nontobacco, tax bracket 28%, *Lincoln WealthPreserve®* SIUL, level death benefit of $10,000,000 with a $258,285 annual premium paid for 10 years. 6% assumed rate, state of North Carolina. **At 1% with current charges, policy lapses at age 93**.

*The S&P 500 Index is a price index and does not reflect dividends paid on the underlying stocks. It is not possible to invest directly in an index. Guarantees are subject to the claims-paying ability of the issuing company. Policy charges remain in effect and could reduce your policy value.



Meet Ben (Grantor)

Age 50, healthy nonsmoker
He and his wife, Grace, have 3 children.

Ben is a sophisticated investor with a diversified portfolio that has appreciated significantly over the years.

Several months ago, he inherited his parent's vacation home. This increased his net worth substantially. Ben wants the house to stay in the family for generations to enjoy. So he's taking steps to make sure his heirs will have the funds to maintain the property and pay real estate taxes when he's gone.

Ben realizes he needs more financial protection. He's also concerned that if something should happen to him, Grace may have to sell assets at a loss if she needs money.

Their challenges

Estate liquidity — Ben needs death benefit protection to provide his heirs sufficient wealth to help protect their inheritance and pay taxes.

Tax risk — He does not want to sell investments to pay policy premiums, because this would trigger capital gains tax exposure.

The wealth protection strategy

Ben's advisor recommends a $3 million death benefit. He also suggests that Ben borrow from a commercial lender to fund a *Lincoln WealthAdvantage* IUL policy with the Surrender Value Enhancement Endorsement (SVEE). The SVEE is designed to create high cash surrender value in the early policy years. This gives Ben supplemental collateral to obtain the loan. By using the 1-Year Point-to-Point Capped Account indexing strategy, Ben's policy gives him growth potential tied to S&P 500 Index performance up to a capped amount. He also has the downside protection of a 1% crediting rate.*

Ben is able to get low interest financing and create a substantial legacy for his family. He pays minimum out-of-pocket costs, and maintains control of his investment portfolio.

How the strategy works

1. Ben borrows $1,873,190.

2. Ben's lender pays the $187,319 policy premiums to Lincoln for 10 years.

3. Ben pays the lender **4%** annual interest out-of-pocket.*

4. If his policy earns **6%,** there is sufficient cash value to pay back the loan by year 12.†

The outcome

- Ben's policy gives him tax-deferred growth opportunities and downside protection.
- The capped account has a 9.5% maximum crediting rate and a 1% guaranteed floor.
- In the first year after paying back the loan, Ben's net death benefit is worth $3,303,969.
- If his policy earns 6%, the value of his death benefit will increase to $3,596,531 by age 70.†

Illustration assumes a male, age 50, standard nontobacco, tax bracket 28%, *Lincoln WealthAdvantage*® IUL, $3 million death benefit with a maximum non-MEC premium paid for 10 years, increasing by cash death benefit option for 25 years then switch to a level death benefit option, maximum annualized participating loans in year 12, state of North Carolina. 6% assumed rate. **At 1% with current charges, policy lapses at age 61**.

*This hypothetical example assumes a 4% loan rate. Actual loan rates will differ.

†Distributions are through loans and withdrawals, which will reduce a policy's cash value and death benefit. Loans are not considered income and are not taxable while withdrawals are tax-free up to the policy's cost basis, provided the policy is not a MEC.

For more information about premium financing with Lincoln's portfolio of products, please contact Matt Wichman at MRW Financial.

Local: 813-875-6331 or National: 800-967-7661

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