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What Is Premium-Financed Life Insurance?



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I write about the creation and management of exceptional wealth. [FULL BIO](#) ✓

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Life insurance can be a very powerful financial tool when used properly and is often integral to [estate planning](#) for wealthy individuals such as successful entrepreneurs. From paying estate taxes to addressing business obligations, life insurance regularly plays a very important role.

There are many ways to pay for life insurance. One very worthwhile approach is borrowing the monies. This is referred to as premium financing.

According to [Frank Seneco](#), president of the advanced planning boutique [Seneco & Associates](#) and a leading authority in the life insurance industry, “When financing life insurance premiums, the wealthy individual borrows the money from a third-party lender. The borrower owner is – at some point in time – responsible for paying back the loan with interest. However, the internal tax-free growth of monies inside the life insurance policy can potentially be used to cover some or all of these costs.”

It is important to realize there are a number of ways to structure a premium financing transaction. For example, while an affluent individual borrows the money to pay the premiums, he or she is paying the interest on the loan annually. On the other hand, the interest can be wrapped into the loan itself. Depending on the way the arrangement was structured, the life insurance policy can be used as collateral, or other forms of collateral might be employed.

This all means that there is no one-way to do premium financing. It also means that a premium financing arrangement must be monitored. It is common to make adjustments in the arrangement over time.

“When it comes to successful entrepreneurs, for example, few of them are taking advantage of this super-rich solution,” explains John Bowen Jr., founder of [AESNation](#) and author of *Becoming Seriously Wealthy*. “In a survey of 262

successful entrepreneurs, only a few more than one in ten of them are using this strategy to purchase life insurance. Part of the reason for this low level of use is that it's not appropriate for a number of entrepreneurs. Another reason is that many financial professionals are not very proficient with this strategy. In a study of 803 financial advisors, while two-fifths of them say they are knowledgeable about financing life insurance, less than then five percent have done a premium financed life insurance transaction with a client.”

Recognizing the many variations of premium financed life insurance is important. It is an exceptionally versatile way to acquire life insurance with different ways to adjust the arrangement as circumstances change. However, making the strategy work well requires the expertise of an adroit financial professional with a deep understanding of this [super-rich solution](#).