

# Life Insurance Financing



Large estates are generally subject to estate and income taxes at the death of the wealthy individual. After non-insurance estate planning techniques have been employed, many wealthy individuals determine that life insurance, held outside the client's estate, is a very good way to minimize the impact of estate and income tax liabilities.

While a life insurance policy may provide the liquidity needed to pay the taxes at the time of death, the insurance premiums during one's lifetime can be very high, creating a liquidity challenge. BNY Mellon Wealth Management offers clients a Life Insurance Financing capability that covers both the annual premiums and the loan interest. The loan is secured by the assets in a client's investment management account with us and the underlying insurance policy. The client is also required to maintain a certain amount of unencumbered liquidity, such as marketable securities. Terms can vary, but generally they are for up to seven years after which time the total principal and accrued interest will be due.

## Benefits to the Insured

- Eliminates a client's cash flow challenges as the insurance premiums and interest payments will be paid from the loan proceeds and not from the client's other resources.
- Provides possible tax benefits as borrowed premium payments and pledged marketable securities may not be subject to gift taxes.<sup>1</sup>
- Keeps investment assets invested allowing them to continue to grow.<sup>2</sup>
- Provides the option to reduce interest-rate risk by taking advantage of our interest-rate swap capability.

Product Parameters	
Borrower	Generally, an Irrevocable Life Insurance Trust (ILIT) with the guarantee of the Grantor/Pledgor
Target Minimum Loan Amount	\$5,000,000
Target Rate	BNY Mellon Monthly LIBOR + spread (similar to a 30-day LIBOR rate + spread)
Collateral	Assignment of the cash surrender value and death benefit of a qualifying Life Insurance policy (variable life policies may not be financed) and assets held in a BNY Mellon Wealth Management investment management account.
Collateral Maintenance	<p>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.</p> <p>Advance/Watermark Rates:</p> <ul style="list-style-type: none"><li>• The Advance and Watermark Rates for the cash surrender value of a qualifying life insurance policy range from 75% to 95%</li><li>• The Advance and Watermark Rates for qualifying Investment Management assets are typically:<ul style="list-style-type: none"><li>- Stocks 70%/80%</li><li>- Bonds 80%/85%</li></ul></li></ul>
Unencumbered Liquidity Requirement for Grantor/Pledgor	Typically, a liquidity covenant is required in an amount at least equal to the marketable securities pledged as collateral.
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.

Insurance Parameters	
Target Minimum Annual Premium	\$500,000
Target Minimum Policy Size	\$10 million (death benefit)
Target Actuarial Life Expectancy	25 years or less
At the Time of Borrowing	The insurance company must carry a Moody's financial strength rating of A2 or better
Term Riders	The insurance policy may carry a term rider that allows the death benefit to increase each year in an amount to cover the majority of the loan balance and retain the original amount of insurance.
At all Times	The insurance company must have at least the following rating at all times: <ul style="list-style-type: none"> <li>Moody's financial strength rating of A3 or better</li> </ul> If an insurance company's rating falls below the minimum rating, the cash surrender value in the policy will be excluded from collateral value.

Documentation	
Items Necessary to begin Life Insurance Financing Process	<ul style="list-style-type: none"> <li>Personal Financial Statement of client</li> <li>Three years federal tax returns of the pledgor/settlor (at BNY Mellon Wealth Management's option)</li> <li>Tax return of borrower</li> <li>Trust agreement for the Irrevocable Life Insurance Trust</li> <li>Verification of majority of the liquidity (copies of investment statements)</li> <li>Completion of a Know Your Customer form (provided by BNY Mellon Wealth Management) and copy of current driver's license</li> <li>Insurance policy or declarations page (if existing policy)</li> <li>Name, address, and phone number of legal and/or tax advisor, as well as insurance agent</li> <li>Collateral analysis (provided by BNY Mellon Wealth Management)</li> </ul>

<sup>1</sup>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 Wealth Management requires that clients engage a qualified financial advisor in order to provide this service.

<sup>2</sup>A separate BNY Mellon Wealth Management investment account may be required to hold the assets used as collateral.

Credit services, which are subject to application and credit approval, and banking services are provided by BNY Mellon, N.A., Member FDIC.

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