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FINANCING LIFE INSURANCE

Life insurance is a crucial component of estate planning, often filling the gaps left by even well-executed inheritance tax strategies. But quality insurance is costly; here are some smart-money strategies.

BY RUSS ALAN PRINCE AND HANNAH SHAW GROVE

Very few people are opposed to life insurance—in concept. The ability to use life insurance to address a wide variety of estate-planning situations, from estate equalization to funding a buy/sell agreement, is not in question. What proves problematic for many wealthy individuals is the expense. The key is obtaining the proper high-quality life insurance policies in the most cost-effective manner. Consequently, the ability to finance a life insurance policy can provide a powerful way to pay for life insurance.

PAYMENT PLAN

"There are a number of ways the affluent can finance their life insurance," explains Frank Seneco, President of **Seneco & Associates, Inc.**, an advanced planning firm in New Haven, Conn., "They can go to outside financers or they can self-finance. What makes all these strategies so attractive is that they can dramatically reduce the amount of money they have to pay—sometimes down to zero. Sometimes you can even make money on these transactions." However, while there are a number of bright line methodologies for financing life insurance, there are also many approaches that are only going to cause problems. "The success of financing life insurance premiums is to properly structure a legitimate strategy for each affluent client," says Seneco, "One size fits all is the absolute wrong approach."

LEVERAGED ASSETS

It's possible to leverage assets to finance a life insurance policy. "For people with revenue streams such as royalties and participations, we would first monetize the stream," notes Richard Flynn, a principal of **Rothstein Kass** in New York City and head of their family office group, "Then we would place the monies in a derivative structure that ensures transparency and liquidity, such as a hedge fund warrant. By borrowing against this investment often at LIBOR + 20 basis points, we're able to use the loan to buy the needed life insurance and still make the client a profit. Once the life insurance is paid off, which is usually in about five to seven years, we unwind everything and the client again receives the revenue stream as before."

When life insurance is called for, consider ways to finance it as opposed to paying the premiums outright. Sometimes, this cannot be done. But a thorough review of all the strategies available can make an annoying, but necessary, payment less of a burden.

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