PREMIUM FINANCING

Navigating a life insurance funding strategy

Not a bank or credit union deposit, obligation or guarantee	May lose value
Not FDIC or NCUA/NCUSIF insured	Not insured by any federal government agency

A flexible planning strategy for funding life insurance needs

Life insurance can be a highly effective vehicle for financial protection and helping to increase the wealth that passes to your beneficiaries—in some cases, over several generations. When properly structured in an irrevocable life insurance trust (ILIT) for estate planning, a life insurance policy can provide death benefit proceeds free of federal income tax and are generally free of estate tax. Life insurance can also help business owners protect their business.

To obtain the level of insurance needed, many individuals and couples may have to liquidate some assets to cover the life insurance premiums. Fortunately, you can implement a life insurance strategy with a potentially smaller immediate impact on your assets with a premium financing arrangement.

Is it right for you?

Consider premium financing if:

- ✓ **You need a significant amount of life insurance.**
- ✓ **You do not wish to liquidate business assets or other investments.**
- ✓ **You have sufficient liquid assets available to pledge as collateral for a loan.**
- ✓ **You may want to minimize or eliminate gift taxes for estate planning needs.**

Why use premium financing?

In a premium financing strategy, you'll borrow funds at a competitive interest rate from a third- party lender to pay your life insurance premiums. Using a premium financing strategy may minimize your need to liquidate assets to pay for the insurance. And, if your assets perform more favorably than the interest rate charged on the loan, the after-tax cash flow can be deployed elsewhere.

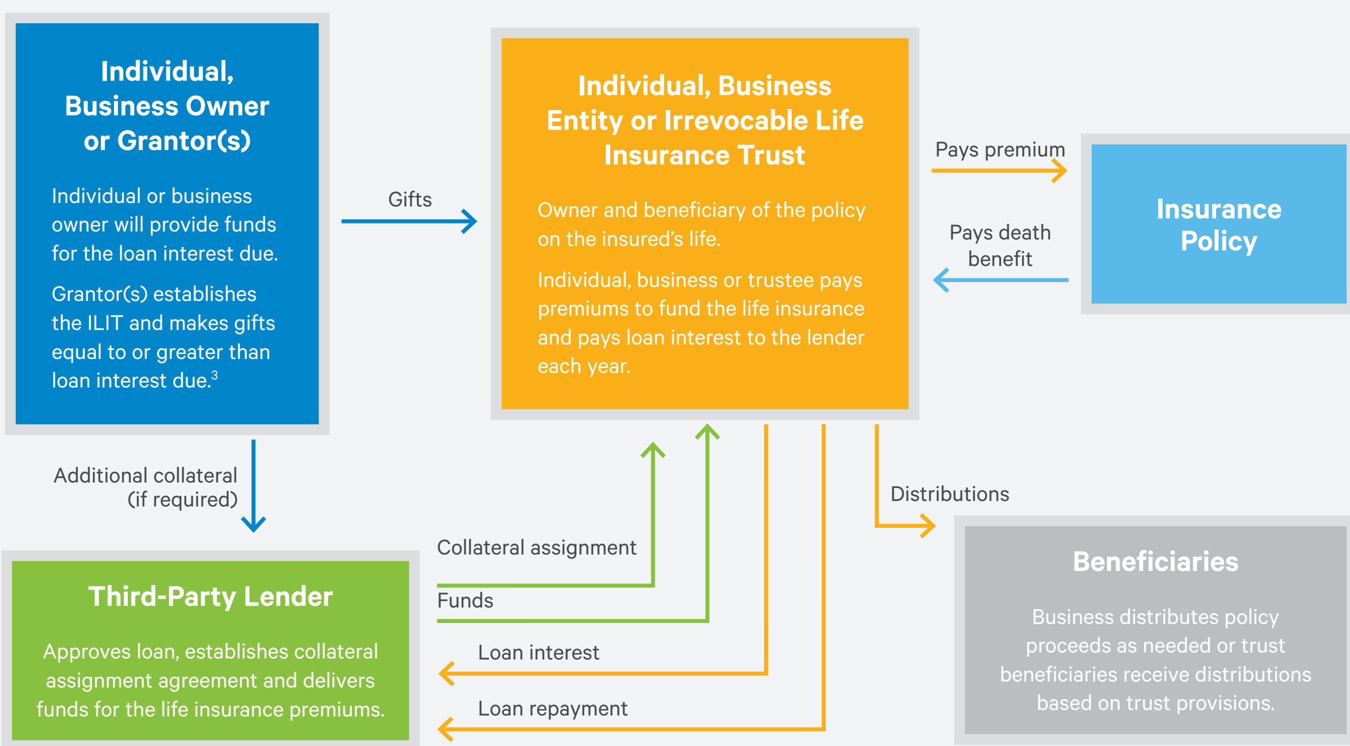
The premium financing strategy described in this brochure is complex and contains certain risks. As a prospective purchaser, you should obtain financial planning and tax advice from an attorney or other consultant. Symetra does not provide tax or legal advice.

How it works
The premium financing strategy

Premium financing is typically arranged between a third-party lender and an individual, a business owner or an Irrevocable Life Insurance Trust (ILIT). Depending on ownership, you, a business or trustee purchases life insurance on your life—or the lives of you and your spouse—and finances the premiums with a third-party loan. The policyowner assigns the life insurance policy to the lender as collateral, and additional assets are assigned as collateral, if necessary.[1] Loan interest is paid to the lender by the policyowner during the term of the loan. Loan interest will vary from year to year and is currently based on the London Interbank Offered Rate (LIBOR) or the Prime rate plus a fixed spread for the term of the loan.[2]

Upon the death of the insured, the policy pays the death benefit, which can be used to pay the lender the outstanding loan amount, and the beneficiary(ies) receives the remainder. Ideally, the loan will be repaid during the lifetime of the insured from other assets or a combination of policy cash values and other assets, and upon approval, the policy and other assets posted as collateral will be released by the lender.

How the strategy works



[1] Please see the discussion about MECs on page 6 of this brochure.

[2] The London Interbank Offered Rate (LIBOR) is the rate of interest at which banks borrow funds from other banks, and the Prime rate is a commonly used short-term interest rate in the U.S. banking system. Both rates are published daily on various financial websites.

[3] Any gift to an ILIT that is intended to be a present interest and completed gift must be made to an ILIT, which contains Crummey power language. The applicable federal estate tax exclusion amount (indexed for inflation) is $11.58 million per individual in 2020. In 2020, the lifetime gift tax exemption and generation-skipping transfer tax exemption is $11.58 million (indexed for inflation) and the maximum tax rate for both of these taxes will be 40%. (Source: "Frequently Asked Questions on Gift Taxes," IRS, accessed Jan. 2020 https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes). For current information and an assessment of your particular situation, please consult with your tax professional.

Understanding loan collateral

In all cases, third-party loans must be 100% collateralized. The policy's cash value will be the primary source of collateral assigned to the lender. However, additional collateral may be required if the policy's cash value is not sufficient to cover the outstanding loan balance at any point in time. The collateral assignment provides a security interest for the lender in both the life insurance death benefit and the policy cash value. If the policy's cash value exceeds the third-party loan amount at any time in the future, you cannot access the policy values unless the lender allows.

Types of collateral
When a lender requires collateral in addition to the life insurance policy, only liquid assets will be accepted. These assets can be liquidated by the lender at any time if the loan is in default. Acceptable forms of additional collateral vary by lender and may include:

- **Marketable securities (valued at lender's discretion).**
- **Certificates of deposit (CDs) and money markets.**
- **Cash surrender value of other life insurance policies.**
- **Other cash equivalents such as treasury bills, commercial paper and short-term government bonds.**
- **A letter of credit from a bank approved by the lender.**

Lenders will monitor and evaluate the collateral requirements during the term of the loan. If there is a shortfall, you may be required to provide additional collateral.

Loan exit strategies

An exit strategy or repayment plan is a key element to help reduce the possible risks of the premium finance arrangement. Several strategies are available:

Policy cash values
If the policy has cash value that exceeds the outstanding third-party loan balance, and the lender agrees, you can withdraw and/or borrow policy cash values to repay the third-party loan value. Typically, the third-party lender will allow access to the policy's cash value to repay any outstanding loans. The distribution of policy cash values will reduce the death benefit and may cause the policy to lapse.[4]

Retained business or other capital
Business or other assets that have been retained through the borrowing of funds, or cash flow generated from the sale of assets, can be used to repay the loan.

For estate planning needs:

Other ILIT resources
The ILIT may repay the outstanding third-party loan from other trust assets.

Additional gifts
Over time, additional gifts can be made to the ILIT in the form of payments that fall within the annual gift tax exclusions and/or the lifetime gift tax exemptions in order to repay the third-party loan.[5]

[4] Policy loans and withdrawals are only available prior to the death of the insured(s) and will reduce the policy death benefit and cash value. This may cause the policy to lapse and may be taxable. Withdrawals or loans on modified endowment contracts (MECs) may be subject to federal income tax and an additional 10% tax on amounts taken prior to age 59½.

[5] Refer to footnote 3 on page 3 for source information. You should consult with your own tax or legal professional concerning your particular situation.

What are the benefits?

A third-party financing arrangement to fund insurance premiums can help you:

Obtain needed life insurance coverage
Fund or pay for significant life insurance coverage for estate planning or business succession purposes.

Increase liquidity
The death benefit proceeds can provide necessary liquidity for beneficiaries or businesses and, if properly structured, can be paid outside of the insured's or grantor's taxable estate.

Retain capital
Avoid liquidating and potentially continue growing assets in your existing portfolio.

Defer income or capital gains taxes
Liquidated assets may be subject to income or capital gains taxes. Borrowing funds from a third party to pay life insurance premiums may help defer the recognition of taxable gains on appreciated assets until the assets can be disposed of in a tax-advantaged transaction or at death, provided a step-up in basis is available.

For estate planning needs properly structured outside of your estate in an ILIT:

Minimize gift taxes
Gift taxes on policy premiums may be minimized or eliminated when the policy is owned by an irrevocable trust, as third-party loans made to the ILIT to pay premiums may not be subject to gift taxes.[6]

Leverage gifts
Third-party interest due is typically lower than the annual premium during the early years of the arrangement, which may provide opportunities to use annual exclusion and lifetime gift tax exemptions to make additional gifts or transfer other assets free of gift and estate tax.[7]

Borrowing the premium amount from a third-party lender can create necessary liquidity, helping to preserve other assets and minimize potential gift taxes.

[6] See private letter ruling (PLR) 9809032. The IRS found that life insurance proceeds payable to a trust were not included in the insured's estate when an ILIT created by the insured had borrowed funds from the insured to pay the premiums. IRS private letter rulings do not constitute legal precedent and can be relied on only by the taxpayers who received them.

[7] Refer to footnote 3 on page 3 for source information. You should consult with your own tax or legal professional concerning your particular situation.

Key considerations and risks

Loan interest rates

Typically, loan interest rates are established by the lender on an annual basis and can increase, which could result in higher loan interest payments than originally anticipated.

Life insurance policy performance

A lower than anticipated policy performance may require borrowing additional amounts to fund the policy and keep it in-force. Policy interest crediting rates can fluctuate, and thus require that you post additional collateral for the third-party loan.

Collateral

Additional collateral may be required based on the performance of the policy cash value and other pledged assets. If the third-party loan goes into default, the assets pledged as collateral in addition to the policy's cash value may be called and possibly lost.

Loan interest

For individuals, funds borrowed to pay life insurance premiums are generally classified as personal interest and are not deductible for income tax purposes.[8] Businesses may have different circumstances.

Modified endowment contracts (MECs)

Pledging a life insurance policy classified as a modified endowment contract (MEC) as collateral will be treated as a distribution from the policy, even if no actual distributions have been made. In this case, any policy cash value in excess of basis (premium paid) is taxable as ordinary income. In addition, an additional 10% tax may be imposed to the extent there is gain in the contract if the owner of the policy is under age 59½.[9]

Personal guarantee

In some instances, the lender may require a personal guarantee from an individual who is also the trust grantor. The personal guarantee of the third-party loan may cause gift or estate tax consequences. You should consult with your personal tax professional for more information.[10]

Is a premium financing arrangement right for you?

A premium financing strategy may be appropriate if:

- ✓ **You have a substantial need for life insurance.**
- ✓ **You do not want to liquidate assets to generate cash flow.**
- ✓ **You wish to minimize or eliminate potential gift taxes for estate planning needs.**

[8] Interest on indebtedness to acquire or maintain a life insurance policy is generally considered personal interest and usually not deductible. Refer to IRC Section 163(h) and IRC Section 264(a).

[9] Refer to Internal Revenue Code (IRC) §72(e)(10) and IRC §72(e)(4)(A).

[10] Refer to Internal Revenue Code (IRC) §2033-2045 and Private Letter Ruling (PLR) 9113009.

Contact your insurance professional for more information.

Life insurance is issued by Symetra Life Insurance Company, 777 108th Avenue NE, Suite 1200, Bellevue, WA 98004-5135. Products are not available in all U.S. states or any U.S. territory.

Guarantees and benefits are subject to the claims-paying ability of Symetra Life Insurance Company.

The applications for insurance and for premium financing are two separate transactions. There is no relationship between the insurance company and the finance company, and neither is obligated to offer either insurance coverage or a loan arrangement based on the decision of the other.

Borrowing funds to pay insurance premiums may be completed only with a properly licensed lending institution. Neither Symetra nor its agents are licensed by any state to act as a lender. Symetra does not endorse any lender for Premium Financing and does not support or promote Stranger Originated Life Insurance (STOLI).

An owner must qualify for the loan and meet the collateral requirements of the lender. There is a chance that the lending institution could refuse to make a loan or demand repayments before a death claim is made.

Market conditions may affect loan interest rates and could make the strategy less attractive. You should have a planned strategy to repay the debt in the future. Loan interest to purchase or carry life insurance is generally not income-tax-deductible.

This very general overview of Third-Party Premium Financing is being provided for informational purposes only. This document is not intended as legal or tax advice. 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 professional. Consult your attorney or tax professional for more information.

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Symetra Life Insurance Company
777 108th Avenue NE, Suite 1200
Bellevue, WA 98004-5135
www.symetra.com