



LIFE SOLUTIONS

Premium Finance Overview

Not a deposit
Not FDIC-insured
May go down in value
Not insured by any federal government agency
Not guaranteed by any bank or savings association

Insurance products issued by:
The Lincoln National Life Insurance Company
Lincoln Life & Annuity Company of New York

What is premium financing?



Borrowing from a bank or other commercial lender

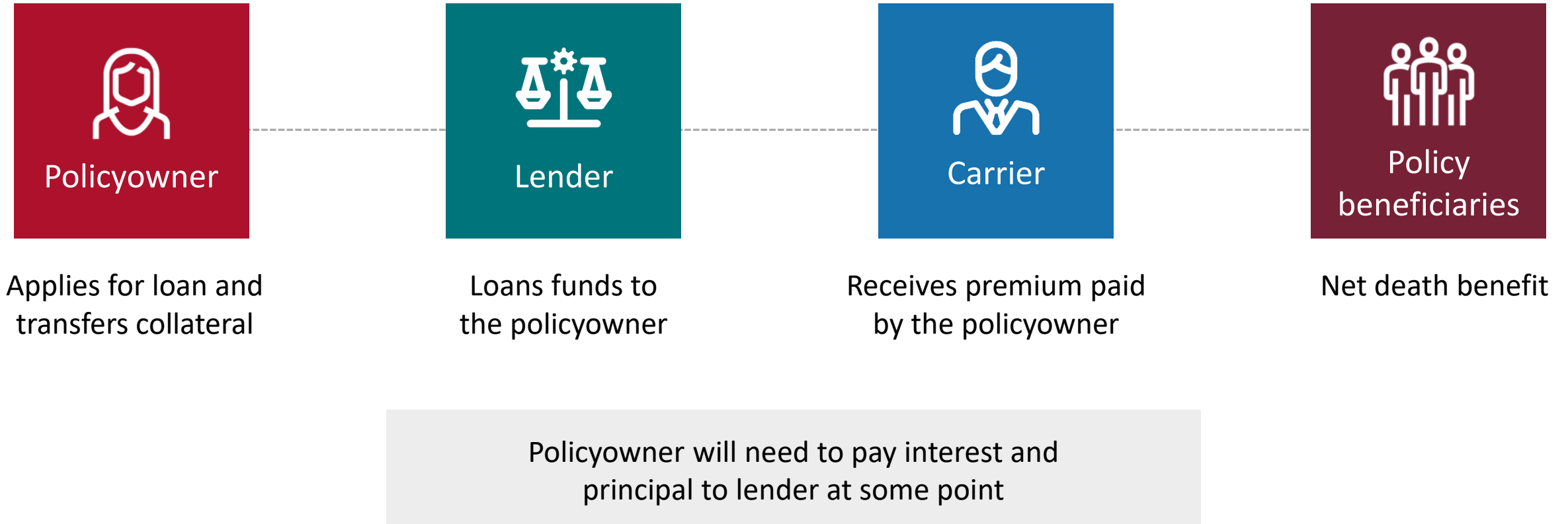


To pay premiums of a life insurance policy



On a life insurance policy

How does commercial premium financing work?



Commercial premium financing

Typical profile

Product design

Funding

Benefits and risks

Collateral

Guidelines

Typical profile

Those with one of the following:

- Estate planning need
- Business insurance need
- Retirement income need



Typical profile



Take advantage of low borrowing costs



May be illiquid



Selling investments could trigger tax exposure



May want to conserve gifting capacity

Funding

- Policyowner borrows from a commercial lender
- Borrowing costs are set by the lender
- Loan must be collateralized

First-year premium	Sample index + spread	Sample rate
\$100,000 - \$499,999	LIBOR + 250bps	3.50%
\$500,000 - \$999,999	LIBOR + 225bps	3.25%
\$1,000,000+	LIBOR + 200bps	3.00%

LIBOR is 0.35% as of December 31, 2020.

Collateral

collateral

noun

Something pledged as security for repayment of a loan, to be forfeited in the event of a default.

(What the bank keeps if you don't pay.)

Possible premium finance collateral:



Policy values



Liquid assets



Marketable securities

Collateral

Collateral sample

Policyowner
borrows
\$1M

First-year
surrender value
\$200,000

Additional
collateral required
\$800,000



Product design



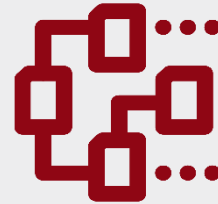
Loan duration

Usually 5 to 10 years



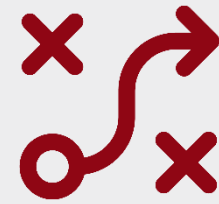
Products

Fixed products only,
typically Indexed UL



Product features

Sometimes includes a
High Early Cash Value
Rider to minimize out-
of-pocket collateral



Exit strategy

May illustrate a distribution* from
the policy to repay the lender
“Death” is usually not an
acceptable exit strategy

*Loans and withdrawals reduce your policy's cash surrender value and death benefit, may cause the policy to lapse, and may have tax implications.

Benefits and risks

If performs as illustrated, life insurance protection for the cost of paying the interest

	Borrowed premium	Loan interest rate	Interest paid annually	Policy death benefit	Total loan	Net death benefit
1	\$1M	5%	\$50,000	\$20M	\$1M	\$19M
2	\$1M	5%	\$100,000	\$20M	\$2M	\$18M
3	\$1M	5%	\$150,000	\$20M	\$3M	\$17M
4	\$1M	5%	\$200,000	\$20M	\$4M	\$16M
5	\$1M	5%	\$250,000	\$20M	\$5M	\$15M
			\$750,000			\$15M



But an underperforming policy could add substantial cost to the owner.

Guidelines



Net worth

\$5M age \geq 51
\$2.5M age \leq 50

Annual income

\$250,000 all
ages



Proposed insured must be able to pay the **minimum annual level premium**



Generally, **interest must be paid** as incurred annually or more frequently. Accrual can be considered if certain guidelines are met.



Well-defined loan payment plans and exit strategies



Foreign National

Wealthy global clients can finance their Lincoln policies



MultiLife

MultiLife cases can be financed with Lincoln



Term Conversions

Premium finance is available for term conversions

Commercial premium financing

Typical profile	<ul style="list-style-type: none">▪ Estate planning and/or SRP need▪ Illiquid and/or wants to take advantage of low borrowing cost
Funding	<ul style="list-style-type: none">▪ Borrows from a commercial lender▪ Costs tied to LIBOR or PRIME
Collateral	<ul style="list-style-type: none">▪ Required▪ Policy values, assets, securities, etc.
Product design	<ul style="list-style-type: none">▪ We typically design 7-10 pays▪ HECV rider to minimize collateral▪ Repay loan from policy values
Benefits and risks	<ul style="list-style-type: none">▪ If performs as illustrated, protection for the cost of the interest▪ If underperforms, considerable cost
Guidelines	<ul style="list-style-type: none">▪ Premium finance cases must meet Lincoln's guidelines

Thank You

Disclosures

Lincoln Financial Group (LFG) does not recommend, endorse, sponsor or otherwise offer Premium Financing. LFG does not have an agreement with any Premium Financing organization, is not a party to the loan agreement and does not receive any form of compensation from any financing arrangement. There are risks associated with commercial Premium Financing including but not limited to interest rate risk, additional collateral requirements, additional loan renewal requirements and risk the lender could become insolvent. In addition, if the policy owner fails to repay the loan based on the terms, the loan could default and the insurance contract could lapse.

Issuers:

The Lincoln National Life Insurance Company, Fort Wayne, IN
Lincoln Life & Annuity Company of New York, Syracuse, NY
The Lincoln National Life Insurance Company does not solicit business in the state of New York, nor is it authorized to do so.

All guarantees and benefits of the insurance policy are subject to the claims-paying ability of the issuing insurance company. They are not backed by the broker-dealer and/or insurance agency selling the policy, or any affiliates of those entities other than the issuing company affiliates, and none makes any representations or guarantees regarding the claims-paying ability of the issuer.

Distributor: Lincoln Financial Distributors, Inc., a broker-dealer

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates, including The Lincoln National Life Insurance Company, Fort Wayne, IN, and Lincoln Life & Annuity Company of New York, Syracuse, NY. Variable products distributed by broker-dealer/affiliate Lincoln Financial Distributors, Inc., Radnor, PA. Securities and investment advisory services offered through other affiliates. Affiliates are separately responsible for their own financial and contractual obligations.

Not a deposit
Not FDIC-insured
May go down in value
Not insured by any federal government agency
Not guaranteed by any bank or savings association

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

Affiliates are separately responsible for their own financial and contractual obligations.

Order code: LIF-PF-PPT002
6/21 Z01

LincolnFinancial.com

