Life

Life Insurance:
Your Blueprint for Wealth Transfer Planning

Premium Financing

ING

Premium Financing

You've worked hard to earn financial success, and along the way you've also gained some wisdom in financial matters. You're familiar with the many financial options available and you have the experience to choose which ones are best for you. For example, you understand the benefits that life insurance can provide. Aside from its basic function—protecting your loved ones financially after your death—life insurance can also be a valuable tool in estate planning, charitable giving, and retirement funding.

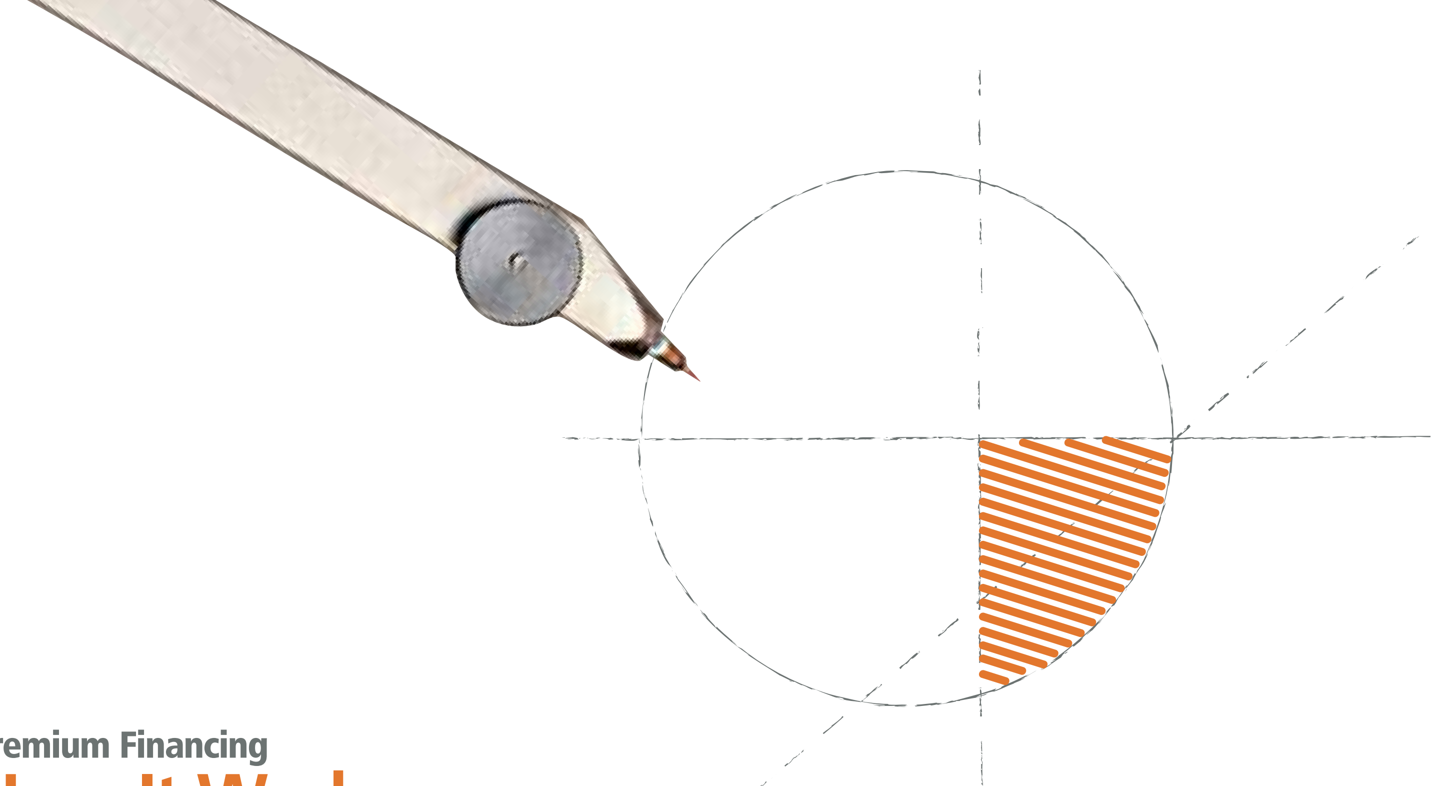
Although hardly anyone disputes the benefits of life insurance, nobody enjoys paying for it. Some worry that the costs are too high, or that buying life insurance would divert funds from potentially profitable investments. As a result, many people—even those with large estates—haven't adequately protected their financial legacies. They would gladly buy life insurance if they could make the purchase on favorable financial terms, but traditional methods for funding life insurance don't appeal to them.

If you are one of these people, ING may have your life insurance solution. A worldwide leader in insurance, banking, and asset management, ING offers the tools and expertise you need to build and protect the future you've dreamed about. We're proud to offer a powerful life insurance concept: premium financing for life insurance.

Premium financing enables people with high net worth to purchase life insurance without liquidating other investments or otherwise changing their normal cash flow. Through this innovative financial arrangement, qualified clients borrow the funds to pay life insurance premiums. They protect their net worth and pass their financial legacy on to future generations—and they do it without altering their other financial strategies.

Premium Financing

Essentially, premium financing means borrowing money to pay life insurance premiums. Of course, this means taking on debt, something that many of us are reluctant to do. Premium financing arrangements can be designed in such a manner, based on current assumptions, so that they may be less expensive than paying life insurance premiums outright. Even in those cases where the total financial outlay is greater, borrowing funds to pay life insurance premiums may still be an overall cost-effective strategy.



Premium Financing

How It Works

The premium financing concept is simple, but the actual transaction itself can be quite complex. For this reason, it's critical to involve your own tax and legal advisors in the process. Working with your ING representative, you and your advisors can craft a premium financing package to fit your unique needs.

While each premium financing arrangement is "custom designed" to meet your unique financial goals, all premium financing transactions consist of two separate financial instruments: a life insurance policy from an ING life insurance company and a third party loan. The application process occurs in two stages:

Stage One—The Application for a Life Insurance Policy

Your ING representative submits your application for a life insurance policy. An ING life insurance company completes medical and financial underwriting to determine whether you qualify for the policy.

Stage Two—The Application to Borrow the Premiums

After the life insurance policy is approved, your case is submitted to a lender. The lender analyzes your credit and financial status, and decides whether or not to make the premium loans.

Assuming that both the life insurance company and the lender approve, your premium financing arrangement is underway: the lender will deliver funds for the life insurance premiums, and you will pay the lender interest charges and any loan fees.

The Benefits of Premium Financing

If premium financing is right for you, it may provide you with several benefits:

- Potential lower out-of-pocket expenses as compared with traditional premium funding.
- Gift tax savings when the policy is owned by your irrevocable life insurance trust.
- Lower impact on your existing personal assets because you are not required to liquidate assets in order to fund the life insurance premiums.
- Greater leverage of existing assets by continuing to be able to employ them in your existing financial plan.

Disadvantages of Premium Financing

At the same time, you need to be aware of potential disadvantages of premium financing:

- There is a risk that more assets than initially anticipated will need to be pledged in order to continue the arrangement.
- If policy values are insufficient, the pledged collateral in a non-recourse loan may be used to satisfy the loan. With a full recourse loan, additional out-of-pocket contributions may be necessary to satisfy the loan.

Eligibility for Premium Financing

Because of its complexity, premium financing is not for everyone. If you are financially sophisticated and you have skilled tax and legal advisors, this strategy may be appropriate for you. Additionally, lenders require that you meet certain eligibility requirements. In general, to qualify for a premium financing arrangement you should:

- Have a need for life insurance.
- Have a net worth of at least $5,000,000 or more.
- Have a significant annual income.
- Have assets sufficient to pledge as collateral for the loan.
- Meet life insurance policy underwriting guidelines.

Types of Premium Financing Plans

Again, premium financing plans are individualized to meet your needs. But there are a few general types of loans available. Not all lenders participate in all types, and different types of loans will vary in sensitivity to interest rate changes.

Interest Due in Cash

This type of premium financing plan requires that you pay the interest—in advance or in arrears—to the lender out of your own funds. The loan is for the amount of premiums only. In a properly designed and funded policy, cash-value distributions may cover the interest payments.[1]

Interest Accumulated on the Loan

With this type of loan, you do not pay the annual interest costs to the lender. Instead, the annual interest due is added back into the loan principal and paid out of the policy death benefit at the insured's death. Your only out-of-pocket costs are those related to the loan itself (loan origination fees, for example). However, the increasing amount of the loan generates increasing annual interest costs, which will reduce the amount of policy death benefit delivered to the beneficiary. These types of loans carry a greater financial risk, especially when the policy cash-value performance or loan-interest projections do not meet expectations.

Understanding Interest Rate Relationships

In order to make an informed decision on a premium finance arrangement, you need a clear understanding of interest rate relationships. While no future interest rate predictions can be made, looking into the past can help demonstrate earlier interest rate relationships. Interest rate changes on premium finance loans are generally set for a fixed period of time and are determined by the prevailing free-market interest rates at the time of funding the loan. Understanding the interaction between these interest rates is important for long-term performance. It's equally important to understand the relationship—although not a direct one—between an insurance company portfolio net yield on its invested assets and on a policy yield. For more information about interest rates, including prior interest rate comparisons and their potential impact on future policy performance, please see the ING brochure *The Effect of Interest Rates on Premium Financing for Life Insurance*. Your ING representative can provide you with a copy.

[1]Loans and withdrawals may generate an income tax liability, reduce available cash value and reduce the death benefit or cause the policy to lapse. Please refer to your individual contract for provisions.

Important Issues in Premium Financing

There are several important issues that you should consider before finalizing a premium financing arrangement. A comprehensive examination of all relevant issues is beyond the scope of this brochure. For a thorough discussion of these issues, please consult with your ING representative and your tax, legal and financial advisors.

Interest Rates and Loan Structure

The interest rate changes on premium financing loans vary by lender. Generally, larger loans have lower rates and smaller loans have higher ones. Additionally, lenders may charge a loan origination fee or other fees that will increase the total cost of borrowing. Each lender will also have their own interest rates. You need to be aware that changing interest rates may increase collateral needs or lower the net death benefit to the policy's beneficiaries. Be sure to discuss this important issue with your ING representative and your tax, legal and financial advisors.

Financing Options

Premium financing consists of two separate financial instruments: a life insurance policy from an ING life insurance company and a loan. Each lender will have its own rules, procedures and requirements. In addition, each loan usually has a specific loan term and your loan may need to be renewed periodically. Many lenders will require you to qualify for loan renewal.

Collateral

Collateral is critical in premium financing, and each lender's collateral requirements will be different. Generally two considerations determine whether you have sufficient collateral. First, the total amount of collateral required, which varies by lender. Second, the valuation of collateral; lenders may not value every asset at its face value or even its fair-market value.

Life Insurance Products

You may use any general account life insurance product from an ING life insurance company in a premium financing strategy, including single life and second-to-die policies. See your ING representative for details.

Legal and Tax Considerations

Premium financing has tax implications in a number of areas including estate, gift and income taxes. You must rely on your legal and tax advisors to help you navigate through the various tax issues. ING representatives do not give legal or tax advice.

You've worked hard for your financial success and it's important to protect what you've earned. Premium financing may offer a way to safeguard your financial legacy without forcing you to dramatically change your current financial situation. This brochure includes the basics of premium financing and a brief discussion of important issues. But it doesn't take the place of your ING representative's advice, or the advice of your tax, legal and financial advisors. Working with these professionals, you can fashion a premium financing arrangement that suits your needs and helps you achieve your financial goals.

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Neither ING nor its affiliated companies or its representatives give tax or legal advice. The strategies suggested may not be suitable for everyone, and each individual should consult with his or her own tax advisor and legal counsel before implementing any of the strategies discussed here.

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