STONE POINT FINANCIAL GROUP
CASE STUDY

UNWINDING A PROBLEM PREMIUM FINANCING ARRANGEMENT

THE SITUATION

Brian Stiller* is a 64-year-old Chicago real estate developer. He and his wife, Susan, have a net worth of $8 million, largely comprised of real estate holdings. Five years ago, the Stillers purchased three Indexed Universal life insurance policies with a total face amount of $10 million.

The Stillers do not have children and wanted to use the insurance as a tax-efficient vehicle for providing supplemental retirement income. To fund the approximately $500,000 annual premium that was scheduled to be paid each year for seven years, the Stillers worked with an insurance agent and bank to arrange premium financing.

THE PROBLEM

By year five, the Stillers began to notice that increases in their bank loan rate exceeded the growth rate in their policies' cash values. The couple met with their banker who, in turn, recommended that Stone Point Financial Group evaluate the couple's policies and financing arrangement. Stone Point performed an in-depth analysis and discovered questionable cash accumulation economics and plan design flaws, several of which included:

- The original plan incorrectly assumed that bank loan interest rates would remain at 3% for all years.
- There was no exit strategy for paying back the bank loan other than the policy death benefits.
- Although the policy design claimed that cash value growth would be tied to the S&P 500, two of the policies had 70-80% of their cash value in fixed accounts which failed to capitalize on historic market growth. The original policy design showed an average rate of return of 7%, yet the actual return averaged between 4% and 5%.
- The policies' guaranteed coverage ages were insufficient and would likely cause the policies to lapse prematurely. Guaranteed coverage ages were 74, 75 and 83 respectively.

RESOLUTION

Stone Point presented five options to the Stillers for resolving their policy and financing issues. The Stillers decided to terminate the policies and premium financing arrangement in the short term, and are currently considering new proposals that would provide life insurance and long-term care coverage.

Stone Point worked with the Stillers, bank and insurance carriers to pay off the bank loan using the cash value accumulated in the three policies. There were minimal policy surrender charges and the Stillers ultimately received most of their money back except approximately $60,000 plus loan interest charges.

[1] Client name has been changed to protect confidentiality. | The information presented here is for educational purposes only and actual results may vary. Indexed Universal Life Insurance products are sold by prospectus. A prospectus is available from your insurance professional. Clients are advised to read the prospectus in full before investing. Securities offered through Valmark Securities, Inc. Member FINRA/SIPC. 130 Springside Dr., Akron, OH 44333. (800) 765-5201. Stone Point Financial Group is a separate entity from Valmark Securities, Inc. and Valmark Advisers, Inc.

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