

Life Insurance Loan Refinancing

A gentleman has a \$2,000,000 mutual whole life policy with an \$800,000 loan. He and his wife weren't even aware of the loan until recently because his agent wasn't helping manage the policy and the trustee didn't understand what was going on.

Since he didn't realize there was a loan he wasn't paying loan interest so it has been accumulating. Additionally, his agent told him years ago he didn't have to pay the premium out of pocket and that the policy values would pay it for him. This turned out not to be true and his policy is in danger of collapsing with over \$900,000 of gain at ordinary income tax rates.



The policy premium of \$25,000/yr is being added to the loan annually while \$56,000 of dividends are buying additional insurance (paid-up additions or PUAs). We changed the dividend option to pay the premium so the loan wouldn't keep growing. Since the loan has an interest rate of 8%, this left \$64,000 of loan interest of which \$31,000 could be paid by the remaining dividends. But who would accept an 8% loan? Most insurance policy owners, that's who. They would refinance an 8% home mortgage but they don't realize they can refinance a ridiculous policy loan and no usually one tells them.

We ended up refinancing the loan for 3.75%, collateralized by the policy itself, that reduced interest to \$30,000, saving him \$34,000 in interest annually. This was enough to pay the interest on the new loan with a little bit left over to start paying down the loan. As the policy dividends grow the loan principal can be paid down more.

The policy is now performing better than it was, has a full \$2,000,000 tax free death benefit, has a much lower debt service and hundreds of thousands of taxes have been avoided. It almost seems too good to be true but it is because someone paid attention.

Do you have a client with a policy loan? It might be a good idea to talk.