

Taking Stock: Dying to know about life insurance scheme

by *Malcolm_Berko*

Dear Mr. Berko: Months ago you wrote an article about a life insurance policy in which a person could buy a \$5 million life insurance on themselves, have someone else pay the premium for two years, then sell the policy and after all expenses make \$250,000 without any risk or cost to themselves. I wrote you twice asking how I can do this but you never answered. You did answer someone I know who wrote and you told him "not to bother because he wouldn't qualify." Please answer my letter now because I need to get the details in my head and need to make \$186,000 real soon when a personal loan comes due.

P.L.

Wilmington, N.C.

Dear P.L.: Never in 100, never in 1,000 and never in a million years have I ever received so many letters, requests and questions about one subject. Kelly, the lovely lady who types this column and manages my P.O. box and e-mail, tells me that we received over 4,000 requests for information. I may not have answered you if your letter did not include a stamped self-addressed envelope - at 41 cents, mail becomes rather costly. And the letters continue to arrive months and months later.

So for all of those who did not receive a response and others who may write, the following should be illuminating because next to federal crop subsidies for wealthy farmers, this may be one of the few remaining free lunches.

Here's a recent example of a premium finance life insurance policy purchased several years ago.

Mr. Ichabod Crane of Sleepy Hollow, Pa., is 74 years old. His total assets are \$4.2 million. He is in excellent health and he can run a seven-minute mile. He buys an insurance policy (the annual premiums are 100 percent

financed) with a \$4 million face value amount. The premium for this life policy is \$130,000 each year.

In Year Two, Mr. Crane sells his policy for \$800,000 and after all commission costs, expenses, interest charges and legal fees, Ichabod nets \$297,328.42.

This is an example of a recently concluded transaction and Ichabod (except for consulting with his attorney) did not have a single penny invested. It sounds simple doesn't it? It really is! And according to "AC," my gifted life insurance genius and guru, here are the details and caveats.

1. Ichabod must have an "insurable interest." In this instance, Ichabod's investments and home are worth \$4.2 million, which is considered an insurable interest.

2. The policy (for tax reasons) must be purchased in the name of an irrevocable trust.

3. Ichabod must be between the ages of 70 and 85. A younger person has a longer life span and the big institutions that seek these policies insist on short life spans.

4. Ichabod must be in excellent health and less than 25 percent of folks in the over-70 age bracket are healthy enough to qualify for life insurance.

5. The premium finance company (the organization that loans you the money to pay the premiums) will charge interest between 8 percent and 12 percent to finance your premium loans.

6. The premium finance company will require your personal promissory note in the amount of the premium loans.

7. Usually after two years of premium payments, your policy (actually a combined portfolio of 50 or so life policies) is sold to a pension fund, a large bank, a hedge fund, a private equity firm, an insurance company or an income fund for about 20 percent of the \$4 million face value or \$800,000.

8. The pension fund, bank hedge fund, etc. assumes the responsibility of continuing the annual premium payments.

9. After the premium finance company is paid back and after your adviser is paid a fee for arranging the policy sale, Ichabod nets about \$300,000.

Now if you get this in your head then you've got it in a nutshell. It's a simple business transaction that sounds too good to be true. However, sometimes (and be mindful that I said "sometimes") when something sounds too good to be true, it's not. And this is probably one of the very few occasions of which I know where a life insurance policyholder doesn't have to die to collect money.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@comcast.net.

