

Protecting the Wealth You've Created

# Life Strategies



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## Life Strategies Introduction

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Estate taxes can have a devastating effect on the wealth that an individual has created and built over their lifetime. Unfortunately, most successful people are so busy creating wealth that they don't have the time to protect it. If the proper preparation is not put in place, estate taxes are highly likely to dismantle an estate due to the sale of primary businesses and assets at an extremely discounted price.

With NIW Life Strategies, leverage is used to purchase the life insurance you need for taxes without paying out of pocket. By using collateral instead of cash to purchase your policy, you are able to keep assets within your control (earning a rate of return), and avoid unnecessary gift taxes\*.

To prove the effectiveness of this method, Life Strategies has undergone simulations of the worst known economic conditions for the performance of this strategy. However, even under extreme economic conditions, the increased collateral required by Life Strategies still compares favorably to paying out of pocket.



# Important Features

## Loan Features

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<b>Capitalized Interest</b>	Paying interest using a loan grants the ability to keep your assets in place and earn the returns you choose
<b>LIBOR Forecast</b>	Top quality projections on loan costs gives you realistic assumptions
<b>Interest Rate Stress Tests</b>	Life Strategies is tested to survive through tough interest rate environments (Specifically a 1980s interest rate scenario)
<b>Multiple Lender Platform</b>	Having multiple, national lenders allows NIW to negotiate the best possible loan terms for you
<b>Annual Loan Servicing</b>	NIW provides consistent loan servicing to keep your plan on track and earn the best possible returns

## Product Features

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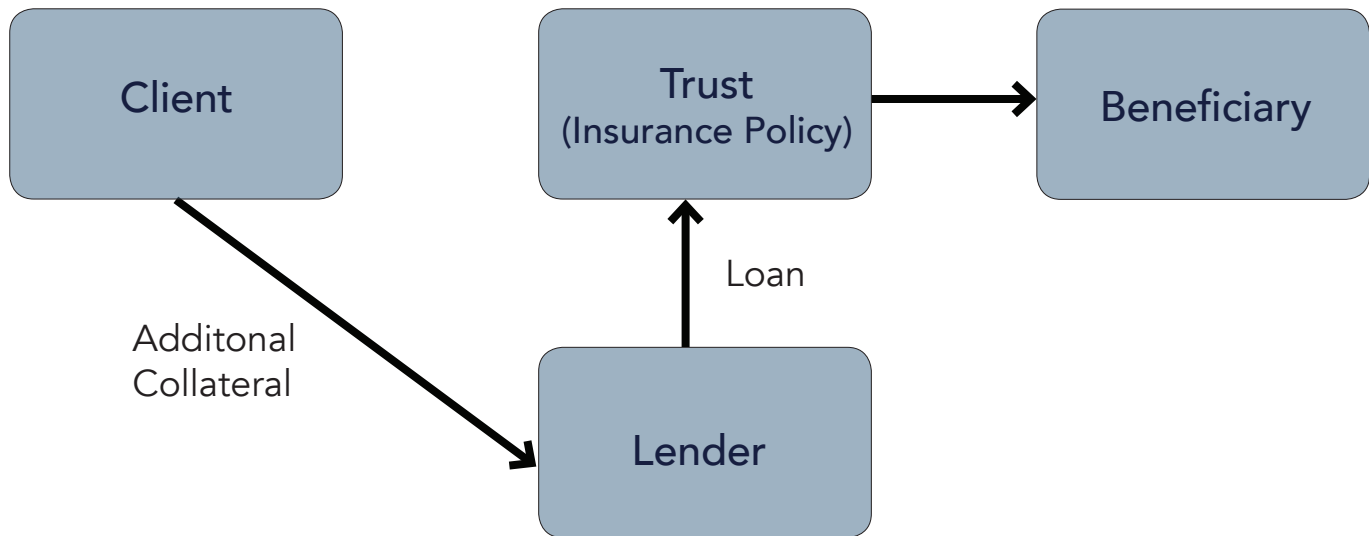
<b>Optimize Policy Growth</b>	The structure of NIW Life Strategies facilitates optimal cash growth
<b>Product Stress Tests</b>	Life Strategies is tested to survive extreme underperformance conditions (Specifically a Great Depression scenario)
<b>Product Annual Review</b>	NIW compares actual performance to original LIBOR projections and provides you with the results. Then NIW makes suggestions for corrective action to optimize your strategy

## Collateral Features

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<b>Illustrates Bank Discounts</b>	NIW calculates collateral using the same numbers as the bank. Most companies understate the potential collateral needed and may surprise you later on
<b>Collateral Projection Update Annually</b>	Annual updates and greater accuracy prevents surprises
<b>Loan Exit</b>	Loan exits take potential underperformance of the policy into consideration instead of using idealistic estimates

# How Life Strategies Works



## How it Works

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A trust or other bankruptcy-remote entity (LLC, FLP, etc.) which has the capacity to assign the policy and borrow money is established. The trust which contains the policy will owe the bank loan, limiting the client's liability to the pledged collateral. NIW will arrange for a loan to cover the cost of the premiums, interest, and any other fees needed to secure the loan.

Because the interest is paid by the loan instead of paying out of pocket, this strategy does not require you to liquidate your assets. In addition, this prevents needing to pay interest contributions to the trust, which has the potential to trigger unwanted gift taxes. Pledging collateral will allow you to use the loan to pay interest and keep your assets under your control. Collateral can be in the form of cash, bonds, securities, or other liquid assets and other forms of collateral may be considered on a case by case basis.

Life Strategies uses the policy cash surrender value to pay back the loan and leave the life policy intact. The loan is typically projected to be repaid in years 15-20, however underperformance could delay the repayment.



Life Strategies grants clients the flexibility to plan for estate taxes while maintaining control of their assets and cash flow.

# Mitigate Potential Risk



## Potential Risks and Solutions

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**Potential Risk #1:** The cost of the loan will outpace the performance of the policy.

Solution: This strategy is conservative in its estimate of policy performance. Although the historical average for policy performance has been 2-3%, Life Strategies assumes it will be +1.5-2% over the cost of the loan. Running stress tests also gives you the opportunity to see the potential impact of a worst case scenario.

**Potential Risk #2:** Although the policy cannot lose cash value, there is the potential for poor performance. Insurance costs during poor performance periods can result in decreased cash value yields. If this happens, collateral will increase.

Solution: NIW chooses national carriers based on the durability of their product design and compatibility with Life Strategies. A great deal of time is spent selecting the products which provide the very best quality and satisfy our clients' needs.

**Potential Risk #3:** The risk of a lender not renewing the loan.

Solution: NIW's multi-lender platform is critical to the success of loan transactions and negotiations because it ensures that there will always be funds available, and that NIW will have multiple alternatives if a lender does not wish to continue. In the latest banking crisis, NIW actually added more lenders to its supply list and continued to process new cases as well as fund existing cases.

# Stress Testing & Next Steps

## What is a Stress Test?

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NIW conducts stress testing on all of our designs before releasing them to the agent because we believe that it is important to understand how each strategy performs in various market conditions. When stress testing, potential designs undergo simulations of The Great Depression and/or the high interest 80's to ensure the sustainability of each strategy. This rigorous testing also guides the selection of optimal products and loan terms, allowing NIW to deliver designs of the highest quality and durability.

## Factors of a Stress Test

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In evaluating risks we need to look at two critical factors: the asset and the cost of borrowing.

The asset we are pledging as collateral for the loan is typically an index universal life insurance policy (IUL). This product is linked to a market index, not directly in the market. As such, it will participate in some of the upside of the market (similar to a long option), but cannot have a negative investment return. Although it cannot have a negative investment return, the product still has the potential to lose money when factoring in costs and fees.

Although running these historical stress tests does not guarantee what will happen in the future, it certainly gives us more comfort knowing that we have simulated the worst economic times periods this country has faced and the designs have survived.

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