



Empire Wealth Management Co. LLC

Empire Wealth Management Co. LLC.
Traditional Values. Perceptive Solutions.

Empire LIFE Strategy™
Premium Financed Life Insurance

Managing Members
Stefan Petrov,
Director Private Wealth Management
Todd Klimson,
Executive VP

1970 Main Street, Suite 201
Sarasota, FL 34236
P.941.371.9751
F.941.870.4101

www.myempirewealth.com



Table of Contents

	<i>Page</i>
Introduction	2
Our Mission	3
<i>Empire LIFE Strategy</i> [™] Overview	4
<i>Empire LIFE Strategy</i> [™] Key Advantages Vs. Traditional Programs.....	6
Addressing the Collateral Pledge	7
Concept Risks and Risk Mitigation Considerations	9
Terms and Conditions to Move Forward	12
Planning Applications/Client profile/Next Steps	13



INTRODUCTION

Empire and Empire LIFE Strategy™

Empire Wealth Management Co. LLC focuses on providing the most discerning clients with new financial planning options to enhance traditional strategies.

For the first time, a program has been designed to provide permanent, premium financed life insurance for high net worth individuals and their trusts. This program includes an effective loan exit strategy as part of the plan. The model has been structured so that the insurance product and the loan facility are synchronized to make the program more effective. Perhaps the best feature is that every client's plan is customized and evaluated annually to assure that it remains on track. *Empire Life Strategy™* is a differentiated strategy for estate enrichment with distinct differences from other premium finance programs.

Many high net worth individuals have a need for large amounts of life insurance, but lack the desire to pay large annual premiums. The combination of paying premiums with after-tax dollars that are potentially subject to gift tax, and adding the lost opportunity cost of spent dollars removed from their investments, often makes the actual out of pocket cost staggering!

By borrowing funds from a third-party lender to pay for the insurance and using the policy as security for the loan, the need to make large annual premium payments no longer exists! With *Empire LIFE Strategies™* the client has freedom to invest in other ventures, enabling them to diversify and leverage their assets, while still being protected with a large policy.

The basic concept of premium finance is simple, however the successful execution is much more complex. The good news is that Empire and its associates have already done all the hard work. We've matched international third-party lenders along with several of the world's largest insurance carriers to work together for your benefit. *Empire LIFE Strategies™* wants to put that expertise to work for you!



OUR MISSION

Who We Are...

For almost twenty years, Empire has been a company that draws on its tradition of unconventional thinking, impeccable professional standards and a steadfast commitment to consumer protection.

Our Specialty...

Providing innovative capital markets solutions purposed to increase consumer access to life insurance and the powerful financial planning benefits it offers.

Our Goal...

Helping families and institutions create and transfer more wealth, through the intelligent capitalization of an individual's "*Excess Insurance Capacity*" at little or no cost to the client



Empire LIFE Strategies™
Lifetime Premium Financed Life Insurance
Overview

Empire LIFE Strategies™ is unique in that it is designed to provide large amounts of permanent, premium financed life insurance for high net worth individuals and their trusts (minimum net worth \$10 million) with a high probability there will be no out-of-pocket cost to the policy owner. Financing is provided by four of the world's largest international banks who have synchronized their loans to work with specially designed insurance policies from top rated insurance carriers. The life insurance policy is aggressively funded to build immediate and rapid-growth cash value which is used in part to satisfy the collateral requirements for the loan. Although some independent collateral is required to initiate the loan process for the early policy years, eventually the cash value becomes the sole source of collateral for the loan and then assigned collateral is released.

Cash value growth is enhanced by a special indexing component in the policy and is designed to do three things: 1) ultimately provide all of the collateral needed for the loan, 2) increase the death benefit by at least the accrued loan balance each year, and 3) provide a value large enough to retire the loan balance in full. All plans have a loan exit strategy, taking place either during the insured's lifetime or automatically at the insured's death.

Empire LIFE Strategies™ is designed for use with estate, charitable, business planning (buy-sell, key man, incentive packages) and trust revitalization.

With **Empire LIFE Strategies™** a trust (ILIT or IDGT) with borrowing provisions is utilized. The trust purchases a specific life insurance policy on the life of the client. The face amount is sufficient to pay estimated estate taxes, fund key man or business buy-sell agreements, make a large endowment or charity, or strengthen a family trust. The lender agrees to fund the premiums and the client may accrue the interest for a fixed term – 15 years, for instance. At the end of each loan term, a renewal loan may be obtained, subject to new loan underwriting and then available interest rates. The beneficiaries of the trust receive the net death benefit.



Unique benefits of *Empire LIFE Strategies™* :

A specific life insurance product where the loan costs, interest and the principal are rolled into the loan from year to year, until the loan is retired or until the death of the insured. Most U.S. banks do not offer these “non-performing” loans. Therefore, unless a client is using our product, loan interest normally must be paid out-of-pocket every year.

Business logic appeal: creates the opportunity to continue to earn a return on assets that otherwise would be used to pay insurance premiums and gift taxes.

The annual death benefit increases to provide enough total protection to pay the beneficiaries the original desired death benefit after the loan is retired.

Lending relationships that offer both long-term lending (up to 15 year renewable terms) and capitalized loans if desired. Lower interest rates and margins over LIBOR compared to U.S. banks and most international banks. International lenders include HSBC, Deutsche Bank, Barclays Bank and Credit Suisse. These banks are exclusively committed to this strategy.

Reduction of and probable elimination of the out-of-pocket costs associated with the purchase of life insurance.

Collateralized/Assigned assets are left under the client’s management and control. The lender does not require that it take over the management of assets used for collateral.

No personal guarantee is required by half of our banks. With these banks, only assigned assets are used as collateral.

Professional client advisor (Attorney, CPA) involvement is required. Annual reviews by Empire, and lender keep the plan on track. Risk assessment and mitigation, if needed, are implemented annually.

An existing policy’s value may be exchanged into the Empire LIFE Strategies™ program via a IRC Section 1035 exchange. This will enhance the case design.

Client profile

Ages 20-70

Minimum net worth of \$10 million

Minimum loan amount of \$5 million (includes accrued interest)

Medical underwriting works best at Standard or Preferred health ratings

Maximum death benefit limited only by industry tolerances – currently about \$125 million

This program is creative, cutting-edge advanced life insurance design with risk reducing techniques embedded in its structure.



Empire Life Strategies™ Key Advantages Vs. Traditional Premium Finance (PF) Programs

Four lenders, all <u>top-10 international banks</u> with large lending capacity, established unique terms for NIW. HSBC, Deutsche Bank, Barclays Bank and Credit Suisse.	Many small, medium and large banks have attempted to offer PF but have fallen far short of no “out-of-pocket cost” – lifetime scenario. Not designed to last more than 10 years.
Designed with <u>two loan exit strategies</u> : retires loan during the insured’s lifetime or at policy maturity. Designed for insured’s of <u>all</u> ages.	Only loan exit strategy is death of insured. Therefore, designed for ages 75 and older.
Interest and loan costs are rolled into loan, <u>allowed to accrue</u> for life of loan.	US banks can only offer “performing” loans, thus require annual interest payments and loan costs. By years 5-7, interest payments exceed cost of purchasing life insurance out-of-pocket. Face amount must be reduced.
Renewable up to <u>15-year loan terms</u> ; long-term Lender commitment.	US and other banks typically offer 1-5 year loan terms only.
Lender margins are fixed at 1% to 1.5% over LIBOR for up to 15 years; <u>lower cost of money</u> . 15-year LIBOR projections based on Banking Industry Forecasts as published weekly in WSJ.	Most US and other banks require margins of 1.75% to 2.5% above LIBOR. LIBOR predictions are typically individual bank-based forecasts.
Loan collateral is NOT required to be placed with Lender. Insured <u>retains ownership and control of collateral</u> .	Most banks require collateral to be placed under their control and management.
NIW has negotiated specialized loan terms whereby <u>Minimal outside collateral</u> is required. As policy cash value grows, outside collateral is reduced.	Most bank loans are not designed for PF. Typically, larger amounts of collateral are required from the insured.
As policy <u>cash value</u> grows it becomes <u>sole source of collateral</u> to the lender.	Outside collateral and policy cash value are required until death of insured.
Policy <u>cash value earnings rates</u> are <u>Indexed</u> to S&P Index <u>increases</u> . Current maximum annual return is 48% (4.0% per month x 12). <u>No</u> exposure to S&P downside. <u>Minimum annual guarantees</u> of 1% or 2% depending on insurance carrier chosen.	Most other PF programs have not had policies specifically designed to coordinate with the loan facility and to deliver the potential returns that NIW has had carriers engineer.
<u>No personal guarantees</u> required with Credit Suisse and Barclays Bank.	Most other banks require personal guarantees.
<u>IRC 1035 Policy Exchanges</u> encouraged for transfer of outdated, pay-as-you-go policies; Optimal PF scenario. Less outside collateral required; more immediate cash value; lower immediate loan balance; lower interest accrual.	IRC 1035 Exchanges are available but less impacting due to strategy differences.
<u>Annual program reviews</u> scheduled for <u>life</u> of insured. Program projections are annually tracked and assessed. Corrections recommended if necessary.	No other program is known to offer annual reviews beyond the first 5 years.



PREMIUM FINANCED LIFE INSURANCE

Addressing the Collateral Pledge

Premium Financing is a valuable financial strategy that when utilized correctly can enhance an estate plan, a business plan, a charitable funding plan or revitalize a trust.

1. Empire Wealth Management, is on the leading edge of advanced life insurance strategies for charities and wealthy individuals.
2. *Empire Life Strategies*[™] is an alternative method of funding life insurance whereby all or part of the premiums needed are borrowed from a third-party international lending institution, so that current investments and other assets of the client are not disturbed.
3. *Empire Life Strategies*[™] is designed for wealthy individuals with a net worth of at least \$10 million and where a need for substantial life insurance exists. The need for insurance may include estate planning, business planning, charitable planning and trust revitalization.
4. This program does NOT guarantee FREE life insurance! However, *Empire Life Strategies*[™] offers the high probability of substantially lower cost compared to conventional pay-as-you-go life insurance. The strategy is designed to substantially reduce, or in many circumstances eliminate the insured's out-of-pocket outlay for purchasing life insurance by taking advantage of long-term premium financing at favorable terms.
5. The strategy will work with ages 20 to 70, but is most effective from ages 40 to 60. Another structure, *Millennium Plus*[™], has been effective with ages up to 85, provided the individual is healthy enough to be approved for large life insurance policies.
6. The life insurance policy is "collaterally assigned" to the lender and serves as part, or all of the collateral for the loan. The loan may be repaid over time or continue until the death of the insured. Instead of paying premiums out-of-pocket, the insured is normally required to initially provide other assigned assets as additional collateral. But, these assigned assets are left under the insured's management and control, so there is little or no lost opportunity cost. *Empire Life Strategies*[™] encourages an individual to focus on assets that are not being effectively leveraged elsewhere.
7. An individual's decision to move forward should always be based on why this is a good "business decision." Just as a good business plan is monitored on a regular basis, *Empire Life Strategies*[™] is not "sold" and forgotten. Rather, the program includes a detailed annual analysis that is designed to keep the program on track.



A dilemma facing wealthy individuals:

Individuals who may benefit from *Empire Life Strategies*[™] usually have a substantial need for life insurance but cannot reconcile the annual before-tax premium costs with the ultimate death benefit. For example, an individual with a 43% income tax bracket must earn \$3,172,304 to pay a \$1,808,213 premium for a \$30,000,000 policy. In nine years, he will have paid an amount equal to the death benefit.

The Empire Life Strategies[™] *alternative:*

A trust (ILIT or IDGT) with borrowing provisions is utilized. The trust purchases a specific life insurance policy on the life of the client with a “net death benefit” of, for example, \$30,000,000.

The lender agrees to fund the premiums and the client desires to accrue the interest for a fixed term, such as 10 or 15 years. The loan is secured by the rapidly increasing cash value of the policy (which is due to the larger than normal premiums that are being funded) and a relatively small amount of additional outside assets owned by the client or the client’s trust.

A specific insurance policy (offered by major carriers) provides a death benefit that “increases” by both the amount of each premium borrowed, and the interest that accumulates on the premium loan. At the end of each loan term (up to 15 years) a renewal loan may be obtained subject to new loan underwriting at then available interest rates.

There is a lifetime “exit strategy” planned for younger clients (up to age 65). The policy cash value is projected to grow to an amount sufficient to retire the loan and, in addition, leave enough cash value in the policy to support the policy for the rest of the insured’s life without further premium payments.

With older clients (70 + years old), the lender is repaid from the policy’s increased death benefit proceeds. There is no planned loan exit strategy because the loan balance is paid from the increased death benefit proceeds, while the beneficiaries of the trust receive the original “net death benefit”, income tax free. **When older clients are insured and there is not enough time to build sufficient cash value for a loan exit strategy, the increased (gross) death benefit will retire the bank loan in full. The “net death benefit” will then be paid to the beneficiaries.**



Empire LIFE StrategiesTM – Concept Risks & Risk Mitigation Considerations

Background to Design

The premium finance solution proposed presumes that the client does not wish to pay interest on the loan from the various banks Empire and their associates or the client work with. In order to remain a zero out-of-pocket design solution using interest roll up, there needs to be a positive arbitrage between the growth in the cash value in the insurance policy and the accruing loan interest. The amount of arbitrage required varies on a case-by-case basis depending on the age and health of the client. As a rough rule of thumb however, a 2% arbitrage is required. For purposes of this summary, 2% will be assumed as the necessary arbitrage.

The design typically provides a loan exit in the 15-25 year range. Because of this, the arbitrage of 2% is required on a medium to long-term average basis; yearly variations are not particularly vital as long as the averages hold true. Based on NIW's back testing, this arbitrage has held true when considering these averages over the last 50 years. It is, however, highly likely during the design term that there will be some years where a positive arbitrage is not available. In some years the arbitrage will be greater than 2% and some years the arbitrage will be less or negative. The maximum negative arbitrage in any given year will be the difference between the actual interest rate charged for the year and the guaranteed return on the policy. It is statistically very unlikely that a sustained negative arbitrage will occur, as this would imply a complete and sustained failure of the world's capital markets.

The design has been established using (in most cases) the historical, average 20-year performance of the chosen Index UL product as well as the LIBOR forecast supplied by the banks at the time the design was created. To that end, the design is seen as the most likely conservative case scenario to actually occur. The back testing requested by client attorneys, assuming a start 15 years ago, shows a significantly improved result, as the average annual arbitrage based on actual data exceeded 4% —double what is required for the design to succeed!



Factors That Would Lead to Underperformance

Underperformance is defined as any event that leads to the 2% arbitrage not holding true. This would occur if the policy underperforms or if the loan interest rates are so high that the 2% arbitrage can not be maintained. If this happens, there are two possible impacts on the client. First, additional outside collateral will be required and secondly, if sustained, the underperformance would cause the net death benefit (after loan repayment) to erode or disappear. In this case, pre-emptive corrective action is required.

If the underperformance is short term, then the only impact on the client is that they are likely to be required to post more outside collateral. This is not likely to be a serious concern because required additional collateral is unlikely to amount to a significant percentage of their net worth. This additional collateral would be released when positive performance occurs.

Lenders can only “call the loan” in the event of default. Incidences of default are listed in the loan documents. Default would occur, for instance, if the loan is not adequately secured or if the policy is surrendered. But lenders are not concerned with short term underperformance as long as the collateral covers the loan requirements.

Corrective Action Options

Because the design is based on assumptions and forecasts, all designs need to be monitored to ensure that any underperformance is identified and corrected. All cases include a service plan whereby the lender and the agent involved on the case will review the design on a yearly basis. The client will be contacted if any changes are required. This service remains in place until the loan is retired.

During any given year, the lenders use guaranteed interest rates. So there are no moving parts within any year which would trigger default — other than the carrier’s credit rating changing.

**** Please note the client has the option to discuss with the lender the possibility of fixing interest rates for longer than the one year standard position. Also, client liability is limited to the posted collateral. The lender cannot arbitrarily call unassigned collateral.**



If there is underperformance then the following courses of action are available:

- a) The client can post more collateral – this works for short term underperformance.
- b) The client can pay a portion or all of the interest on the loan in any year - this is sustainable but is an out-of-pocket cost—however still much less than normal premium payments.
- c) Reduce the death benefit of the product.
- d) Reduce the premiums (borrow less each year), thus extending the loan.
- e) Client pays one or more of the premiums (whereby the cash value increases but the loan does not, other than interest growth). They can also pay part of a premium payment to keep the loan/cash value ratios in line.
- f) As a contingency plan, the client can gradually move money into the trust being used (using gift exclusions, GRAT's, etc.). Cash remains in the trust, growing at invested rates of return but can be used to make top up payments if required.
- g) As a last resort, terminate the plan, reduce the death benefit to the minimum and pull all the cash value to repay the loan, except an amount needed to maintain the minimum death benefit so the policy does not lapse. This option is realistically only likely to be used if sustained underperformance occurs.

**** When the yearly reviews are conducted, all options will be explored and reported to the client.**

Is this free insurance?

NO, absolutely not. To qualify for this program someone has to secure the loan and may need to pay some legal fees. Typically, but not always, this would be the responsibility of the client. In addition, the client will probably need to assign personal or business collateral to securitize the loan. The assigned collateral will remain under the client's ownership, management and control until it is released when the policy's cash value becomes the sole source of collateral for the loan. By leveraging assets in lieu of paying premiums, the program can be a very cost effective way of meeting the estate and business planning needs of the client. Transferring value from older policies into *Empire LIFE Strategies*TM via an IRC 1035 exchange is often a recommended solution for reducing costs.



Terms and Conditions to Move Forward

Premium Finance may not be suitable for everyone. However, the benefits offered through *Empire Life Strategies*[™] are profound to those individuals who qualify and are comfortable with the terms. Empire does not wish to squander anyone's time. Due to the fact that so much hard work has gone into the development of this program, we seek out only those clients and professional advisors who are willing to take the time to understand the nuances of the program. Therefore, it is imperative that prospective clients include their most trusted financial advisors early in the evaluation process to determine applicability.

Empire will customize insurance illustrations and premium finance collateral analysis spread sheets for every client who is seriously interested in the program. However, this will only be done under the condition that the client and the client's advisors agree to participate in a follow-up web cast or conference call! During this event, the analysis spread sheets will be reviewed and a "Comparison of Client Collateral Exposure Vs. Paying Out of Pocket" proposal will be carefully examined and all questions will be answered.

Empire Wealth management Co.LLC is committed to excellence and integrity. We believe that the most discerning clients expect and deserve accurate information to make an informed business decision. We are serious about our duty and want to work with clients and professionals who are serious about considering our service.



Planning Applications

- Estate Planning
- Charitable Planned Giving (includes charity as a policy beneficiary)
- Buy/Sell Agreements between business owners
- Key Man life insurance
- Dynasty Trust Revitalization (strengthens Trust to compensate for generational family beneficiary growth)
- Leverage of dormant personal or business assets

Client Profile

- Genuine need for life insurance
- Age: Generally 20 – 70; strategy most effective between 40 & 60
- Minimum net worth - \$10 million (a strict lender requirement)
- Minimum peak loan size - \$5 million including interest roll up
- Maximum death benefit limited only by insurance industry; currently \$125 million insurable capacity available
- Medical – Standard or Preferred ratings preferable
- Valid insurable interest for beneficiaries
- Long term commitment to the needed coverage

Next Steps

1. Call Empire at 941.371.9751 to discuss your case
2. Complete and submit a one-page client “Illustration Request Form”
3. Schedule the required client/advisor web cast or conference call with Empire