



THE INSURANCE ADVISORY GROUP INC.

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Collateral Life Insurance



How do I know if I need Collateral Life Insurance?

When creditors may require a business to purchase life insurance as additional collateral to protect the creditors' interests. This type of insurance is commonly needed if the death of the business owner could affect the value of business assets used to secure the future debt. Often the business owner may also want to ensure that business debts will be fully repaid if he or she dies.

This helps to minimize financial risks for heirs by permitting the business to continue free of debt. In addition, if the business owner has personally guaranteed the debts incurred by the business, the owner or the owner's estate may otherwise be burdened with any outstanding debts that the business is unable to pay.

IAG individual insurance advisors have the knowledge and experience to help companies evaluate, quantify, and insure their corporate risks. One solution is for the business to



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purchase an insurance policy on the life of the business owner(s) or other key executives. Proceeds from the life insurance policy are tax-free to the corporation and may be used to pay down the outstanding business debts. When a business owner or another key executive dies, a life insurance policy purchased for business loan protection can help a business renegotiate loans or simply repay business debts with tax-free life insurance proceeds.

The owner of a life insurance policy pledged as collateral retains certain ownership rights in the policy, but the value of the policy (i.e. cash value or death benefit) must first be used to satisfy the debt owing to the lender (usually a financial institution). After all indebtedness has been satisfied, any remaining amount may then be paid to the designated beneficiary.

The collateral assignment of a life insurance policy is becoming a common requirement from lenders and private equity investors. Generally, life insurance premiums paid for business loan protection are not deductible for tax purposes. However, if a life insurance policy has been required to be collaterally assigned to a restricted financial institution, a portion of the premiums may be deductible.

Collateral life insurance is often the least expensive form of life insurance, and lenders may require coverage to be put into place in a relatively short period of time. IAG's Advisors can create customized solutions to help you obtain collateral life insurance.

For more information, please contact an IAG Advisor today.

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