

PREMIUM FINANCING ISN'T JUST FOR COASTAL ELITES



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On either coast, it is common to see people flaunting their money. Pop culture personifies it, corporations thrive on it and real estate forever prospers with willing buyers of overpriced condos and mansions. According to Investopedia, “The Midwest is considered ‘America’s heartland,’ its farming region.” Many of the fly-over states are left in the wind, full of the untapped wealth of hard-working, conservative lifestyles and closely held businesses. What about the quiet wealth that allows these sustainable economies to flourish?

MILLIONAIRES ARE WALKING AROUND IN TENNIS SHOES AND JEANS.

Wealth is generally not flaunted in the Midwest. Deep roots seated in work ethic, coupled with reminders to live within your means, are principles taught and practiced throughout generations in these areas. There are still subtle memories of the Great Depression and subsequent recessions that keep closely held businesses and individuals in the mindset of using cash to transact, rather than leveraging credit to make purchases. Many residents prefer to remain conservative with cash transactions and don’t want to step outside of the localized social norms of trust-based networks.

We recently worked with Dave and Matt Halvorson of Halvorson Company, a holistic wealth planning firm located in Fargo, North Dakota, that specializes in working with family-owned and closely held businesses. They approached our firm about using the concept of leverage and arbitrage to enhance life insurance planning options for several business owners they were speaking with. We share the belief that more people should consider using leverage, and while many local residents in the area understand the concept of financing -- especially those in the farming and contracting industries -- most don’t consider it as an option for paying for their life insurance premiums.

CLOSELY HELD BUSINESSES RELY ON FINANCING MORE FREQUENTLY THAN YOU MAY THINK.

Business owners who operate with financing, such as bankers, contractors and real estate developers, are familiar with the concept that “Cash is king, but leverage is used for the rest.” They understand the benefits to their business and the ebb and flow of financing. Car dealerships are also very familiar with the concept of leverage for stocking their car lots and usually understand the parallel between financing for automobiles and financing the premiums for a permanent life insurance policy. As we all know, farmers utilize futures contracts and bank loans to facilitate later harvests. Premium financing works in a similar fashion.

Most people don’t realize that there is a substantial amount of high net-worth in the farming industry: “The U.S. economy is hinged to the agricultural exports of the Midwest. The economic stimulus from trade-related activities is greatest for this region, with agricultural exports totaling over \$86 billion,” according to Farmland.org. We have found that, while many local, privately held businesses not only operate using leverage, quite often to make large equipment purchases, they don’t insure the individuals who help make the businesses run. What would happen to the closely held business if it lost the owner or a key employee? Would the business have the ability and cash flow to stay operational?

KEY PEOPLE, KEY BUDGETS

All business owners see the value in liability insurance, equipment insurance, health insurance and more. However, when it comes to insuring the lives of those who make decisions, many businesses are not properly covered. Key people who are essential to business operations are difficult and expensive to replace should something

drastic happen, which can be painful for larger organizations and devastating for smaller firms. Insuring these people provides continuity and security during uncertain times.

Every purchase adds up, and unfortunately, key-man insurance is often overlooked in the budget as a necessity. Many key people, including the business owner, are often uninsured or underinsured. There are, however, economic methods to purchase this insurance. Premium financing is one way to obtain the needed amount of coverage using leverage and allow clients to buy the amount of life insurance they need, not just the amount they are willing to pay for.

BRINGING IT ALL TOGETHER

While coastal elites may be the major-league players in the credit-funded world, there is still a thriving opportunity for any business who understands and uses financing to transact. Premium financing life insurance is a complex process with various nuances, and it can offer incredible benefits and value for the appropriate client. It is important to work with an experienced team of qualified financial, legal and tax experts when implementing this strategy for your clients.