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Premium FINANCING
HOW THE BURGESS GROUP CRAFTS UNIQUE SOLUTIONS FOR HIGH-NET-WORTH CLIENTS
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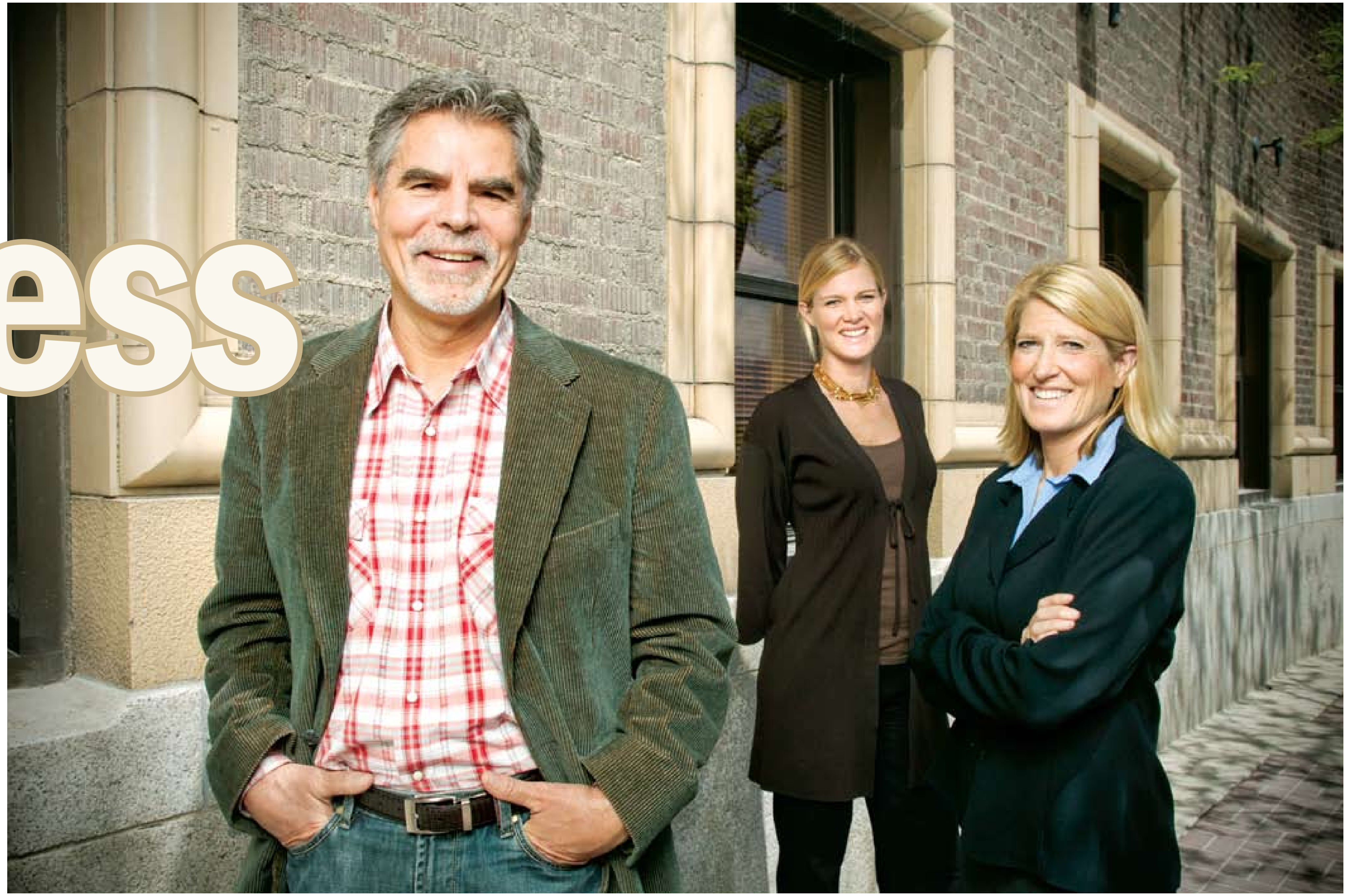
THE Burgess GROUP



ALL IN THE FAMILY Founder Steve Burgess; daughter Addie King, a lead case manager; and wife Liz King Burgess, vice president and general counsel

THE FAMILY-RUN BURGESS GROUP USES PREMIUM FINANCING TO CRAFT UNIQUE SOLUTIONS TO HIGH-NET-WORTH CLIENTS' PLANNING PROBLEMS

By James Cappio

TO STEVE BURGESS, FOUNDER OF The Burgess Group, based in Salt Lake City, premium financing is a "magical" transaction. "It's a 21st-century way for the affluent to create a new portfolio of wealth," he says. "There's no alternative as effective." The Burgess Group has been at the forefront of this industry movement making premium financing a flexible instrument to solve problems for high-net-worth individuals in estate, succession and philanthropic planning.

Premium financing originated in the property/casualty sector. Beginning in the mid-1990s, it developed in the life insurance sector, to meet high-net-worth clients' need for very large amounts of life insurance. Once an advisor determines that a client has the need for a large life insurance policy it may become apparent that although the individual has the wealth to pay for premiums, the payments could disrupt cash flow, or potentially conflict with investment strategies. These types of clients could potentially borrow the money to pay the premium, but to do that with after-tax dollars would be needlessly, maybe still prohibitively, expensive. How do you fund the premium on the most tax-advantageous terms? Enter premium financing.

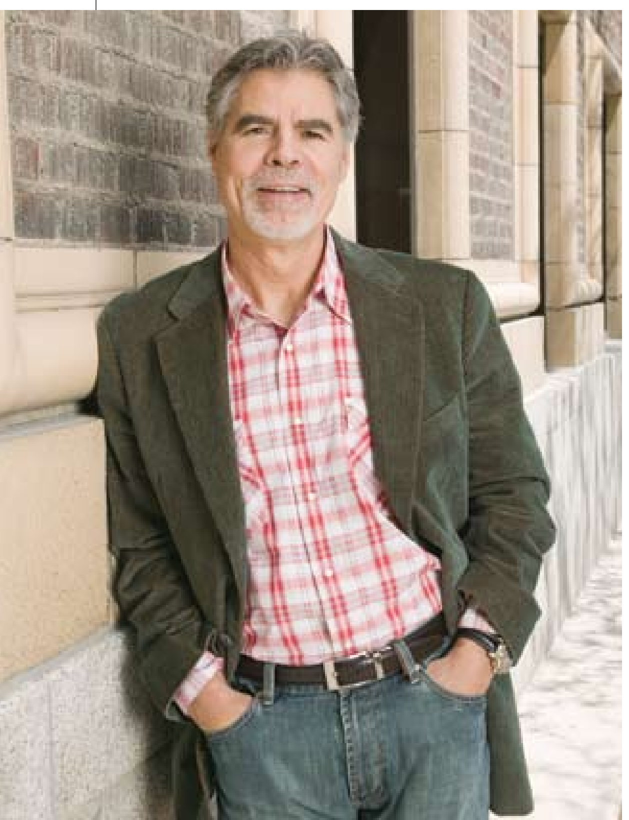
The basic scenario is simple. The client gives money to an ILIT to cover the annual interest on the loan. Ideally, the amount is small enough to come entirely within the gift tax exclusion. The policy is collaterally assigned to the lender. The loan principal is paid at the insured's death from the policy proceeds or it is paid before, from policy cash values or the insured's assets. If all goes well, the client has the needed life policy with as little out of pocket as possible, without liquidating valuable income-earning assets. The client may even profit on the spread between the value of the policy and the interest on the loan. He or she can protect net worth, continue business development and pass on a financial legacy to future generations without altering other financial objectives.

But despite these attractions, premium financing was slow to catch on at first. "The biggest problem was that the insurance products available did not suit the needs of the banks that were approached as lenders," Burgess says. There were issues with collateral (skittish lenders tended to insist on frequent refinancing with additional collateral), interest rate risk (the insured is in a losing position if interest rates exceed the increase in the policy's cash value), and underwriting. Critically, there was also a lack of attention to exit strategy for both lenders and insured. "Most clients did not have the discipline to maintain a side fund with an eye toward exit," notes Burgess.

He saw premium financing as a "unique form of leverage" that could open up a vast market for the specialized planning needs of high-net-worth individuals. And so after several years of dialogue with carriers and lenders, in 1999 Burgess left a 20-year career focused on providing solutions in executive benefits and estate planning to create The Burgess Group. He devoted his efforts to perfecting the techniques of premium financing and was highly proactive with lenders and insurance carriers, helping them with product design ideas and educating them about the unique characteristics of the technique. "The level of knowledge throughout the industry is much higher than it was only five or six years ago," Burgess says. That's enabled him to introduce new products and strategies. He's reduced refinancing risk by getting lenders to agree to longer maturities — as much as 15 years, and in some cases even over the insured's lifetime. He's worked to improve efficiencies in crediting rates; the increased interest yield means lenders can relax their collateral requirements. Uniquely, The Burgess Group even allows the premium loan to be traded in any of the G7 currencies, allowing the possibility of interest arbitrage and the cost-efficient management of currency risk. All this is in service of building lending platforms on a private banking approach, Burgess says. And a strong client relationship in this area will likely lead to other forms of business.

UNIQUE APPROACH The products Burgess uses and their focus on creating backup strategies provide a safety net for the transaction

The Burgess Group is unique, he sums up, "because of the products we use and our focus on creating backup strategies to provide a safety net for the transaction." In other words, an exit strategy for insured and lender alike is everything. The Burgess Group combines this focus with a "cost-efficient lending platform with very low spreads and the ability to use the most favorable interest rate."



This unique approach can help increase life sales for agents in an advanced marketplace. "The value to producers and agents is converting the client's opportunity cost to an opportunity gain," Burgess explains. If a client is expecting a return of, say, 8 percent, a six-figure premium paid with after-tax dollars represents a potentially deal-breaking opportunity cost. But a well-structured premium financing transaction, created by reducing clients' capital outlay and keeping their money working for them, is a better use of capital. Burgess stresses that premium financing is not right for everyone. "A prospective client must have a minimum net worth of $5 million and an annual income of $200,000," Burgess says. "We will only vary those requirements if we're funding for a group of executives as part of a salary continuation plan; then we'll consolidate into a single corporate loan."

Additionally, The Burgess Group program offers a variety of platforms to match the suitability of the client profile and objectives. "Qualified clients must also have sufficient potential liquidity to carry the premiums, meet the lender's Know Your Client KYC and the carrier's underwriting requirements, and be willing to undergo a medical exam." But for those who meet the requirements, says Burgess, premium financing is "a unique form of leverage that opens the way to an unbelievable marketplace that otherwise would have real challenges meeting their estate planning, succession planning and philanthropic goals."

Though it is growing, at heart The Burgess Group remains a family operation. Steve's wife, Liz King Burgess, is an attorney of 20 years' standing who, as vice president and general counsel, heads up the company's contract negotiations and trust and estate operations. Liz's daughter, Addie King, works out of San Diego as one of the company's two lead case managers. When asked what the best thing about working in her family's company is, Addie King's response mirrors that of many children: she didn't appreciate it until she left. "When I came back after some years in the insurance and real estate industries, I saw how being a family business enabled us to bring another level of integrity to our client service," King says. She maintains that level of service, taking care to educate all parties and make them comfortable. "I've been known to fly out and meet personally with agents," she adds — a service beyond what many expect.

Steve Burgess finds that Best Practices is a good fit with his company's philosophy. "I met Mike Rodman several years ago at Top of the Table and International Forum," Burgess says. "His joint-work platform is ideally positioned for the referrals through which we primarily work, and he runs a very dynamic and professional organization."

What does the future hold for premium financing? Even though we are in the midst of uncertain economic times, the leaders of The Burgess Group are bullish. Steve Burgess notes that their primary lenders in the premium financing space have not been involved in the subprime crisis, and predicts that premium financing will remain the 21st-century way for the affluent to create wealth. Liz Burgess notes the adaptability of premium financing and anticipates that lenders will continue to seek the secure, AA-paper sources The Burgess Group works with. Producers who master the complexities of premium financing and emulate the Burgesses' client-centered approach can expect to flourish along with them. ◉

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