COMPLEXITY REQUIRES CRAFTSMANSHIP

PREMIUM FINANCE

UNDERSTANDING YOUR OBJECTIVE & THE CUSTOMIZABLE FEATURES AVAILABLE

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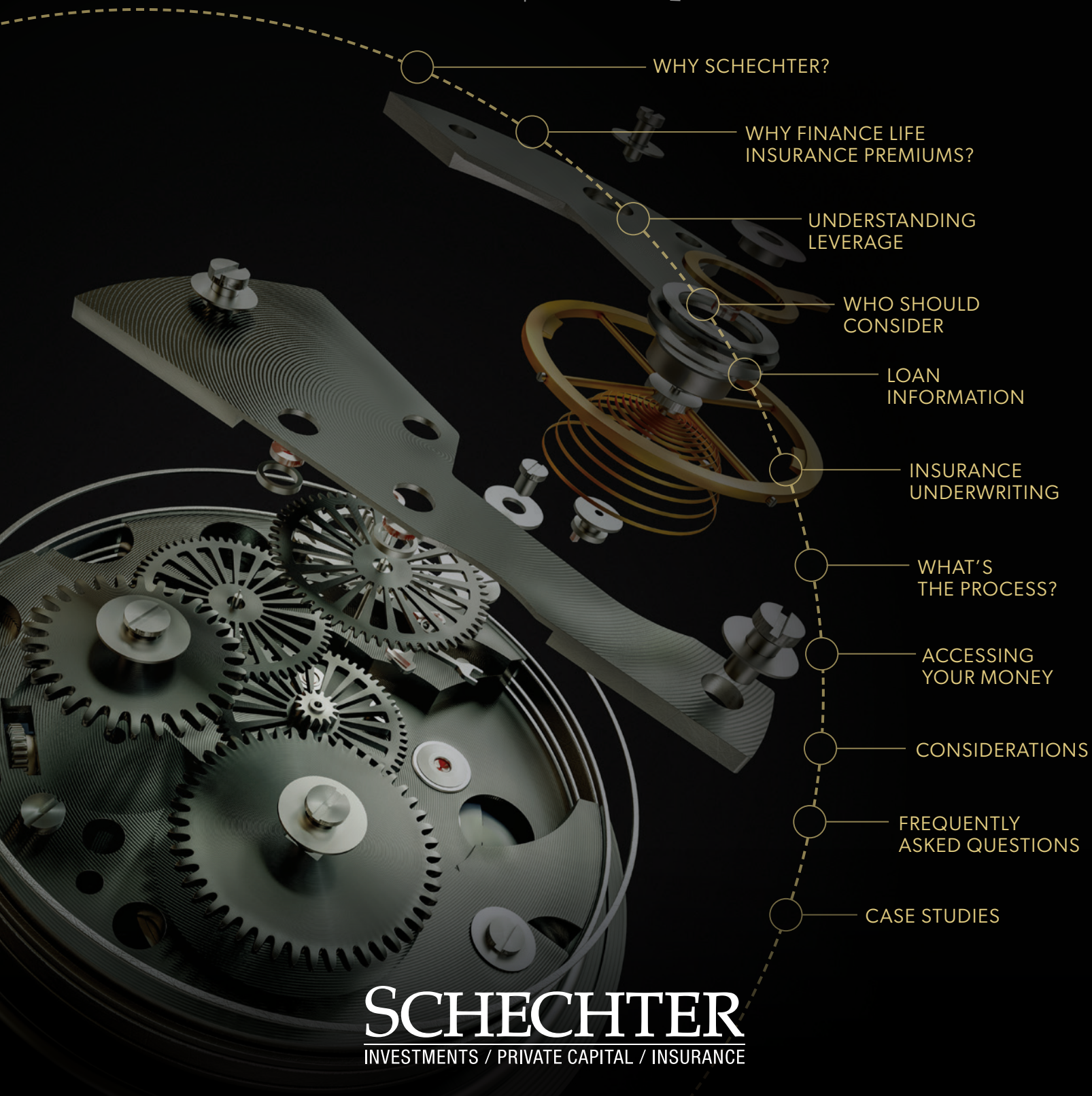


SCHECHTER

INVESTMENTS / PRIVATE CAPITAL / INSURANCE

Why Schechter?

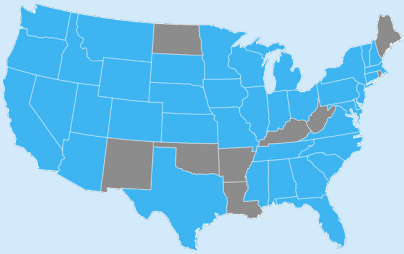
We go well beyond traditional life insurance offerings, and we're involved in the design and implementation of highly sophisticated techniques. Our technical analysts and legal professionals are scouring the market and conducting in-depth research to find the best possible solutions.

We take a customizable approach to every client. There are no off-the-shelf products. We offer a complete-white-glove client experience; procuring, analyzing, underwriting and servicing the entire premium finance program.

EXPERIENCE IN NUMBERS

3RD GENERATION FIRM Rich in Family History & Legacy

CELEBRATING 80+ YEARS



HELPING CLIENTS ACROSS THE COUNTRY

MULTI-DISCLIPINED TEAM
85+ Employees

4,000+
Policies Under Management

$750 Million
of Cash Value

$10 Billion
of Death Benefit

OVER TWENTY A OR A+ RATED CARRIERS

Unlike other firms, our independent platform allows us to select the most appropriate carriers and lenders to achieve a client's specific objectives.

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advanceddesignteam@schechterwealth.com

Why Finance Life Insurance Premiums?

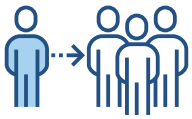
Financing your life insurance premiums can be a powerful, flexible, and tax-efficient option for permanent life insurance premium payments.

Whether you desire an additional tax-free income stream in the future, or a significant death benefit to pass to your heirs, premium financing can be an efficient way to meet a myriad of objectives.

STRUCTURE FOR CASH GROWTH

Building up cash in the policy is an effective way to grow leveraged dollars in a tax-free environment. The cash value in the policy can be accessed, via tax-free distributions, during your lifetime.

You may also opt to allow the cash to continue growing over time in the tax-free environment.



STRUCTURE FOR ESTATE PLANNING

Ideal for those who desire a substantial amount of life insurance – for business planning, tax planning or to transfer wealth to future generations — and who don't want to write significant premium checks.

Clients finance premiums for various reasons; it could be for lack of liquidity, or they simply would rather use the bank's money and pay interest at a low rate to provide beneficiaries with death benefit in the future.

LOW INTEREST RATE ENVIRONMENT

The interest rate environment may provide an opportunity to achieve a positive spread in a properly structured premium finance program. *Reasons why now is a good time to finance life insurance:*

1. LIBOR* Rates are Low
2. 10 Year Treasury Rate Low
3. Yield Curve Inverting
4. Pricing on 10 Year Rate Caps / Swaps
5. IUL Policy Crediting Rates Consistent

** London Interbank offered rate*

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Understanding Leverage in Life Insurance

Successful investors and business people understand the wealth-creating power of using borrowed capital, or debt to increase the potential return of an investment. When financing insurance policies, it involves borrowing money from the bank and using those borrowed funds as a premium payment with the expectation to earn a higher return than the interest you owe.

Banks lend based on LIBOR (London Interbank Offered Rate). Banks add in a small spread over LIBOR for themselves. These rates move daily, based on an average, and will fluctuate during the length of the loan. The daily rates are easy to verify on the internet and banks offer full transparency.

For those with an established want or need for life insurance, premium financing may allow you to:

Take advantage of leverage to potentially **reduce out-of-pocket costs**

Preserve capital for more lucrative investments.

Create equity in a tax-favored environment to **produce cash growth** or future income

Take advantage of potentially significant **gift and estate tax benefits**

USING INDEXED UNIVERSAL LIFE INSURANCE (IUL) IN FINANCED DESIGNS

At Schechter, we tend to prefer Indexed Universal Life policies as there is an annual collared return on an equity index, typically the S&P 500, with a floor and a cap. The insurance company guarantees you will not earn less than the floor and you won't earn more than the cap in any given year. Over the long-term, we believe IULs provide predictability on how these policies will perform in a collared environment. We take advantage of that by borrowing from the bank at a lower rate than we expect to receive in the policy as a credit. By earning the difference in the spread, we are essentially arbitraging interest rates with the percent you are credited in the insurance policy.

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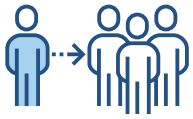
HOW WE STRUCTURE THE PROGRAM

Typically, clients are choosing to do premium finance to either

STRUCTURE FOR CASH GROWTH

Grow to either earn a tax-efficient return or produce a cash flow later in life



STRUCTURE FOR ESTATE PLANNING

Receive a larger death benefit for his/her estate

Based on the client's objective we will structure the strategy differently to achieve one of these goals.

TAILORING PROGRAMS TO ADD FLEXIBILITY

Sometimes there are advantages to modifying the death benefit in the short term to help long term performance allowing the cash to grow more effectively. We also have the flexibility to choose when to pay off the loan, when to pay interest, how much to borrow, and when to pull out money if necessary. Every case is different, and we tailor this experience based on the needs of the clients.

You also have the ability to limit your interest rate exposure by locking in long-term interest rate caps, collars, or the use of swap programs.

- A cap will put a ceiling on how much interest you pay each year even if interest rates rise.
- A collar will put a floor and a ceiling on how much interest you pay each year, and
- A swap allows us to swap a variable rate contract for a fixed-rate.

By incorporating these financial instruments into your premium finance strategy, they can improve the opportunity for success and minimize variability for the long term.

While we can pull different levers within the insurance contract and monitor interest rates, there are also many other questions, such as:

- Do I hold the policy inside or outside of an estate?
- Who's the insured and which insurance carrier to use?
- How long should I borrow?
- What should I use for collateral?

All are important considerations and can make a big difference in the final outcome.

FLEXIBLE PROGRAM FEATURES:

- Structure for cash growth
- Structure for death benefit
- Policy pay off date
- When to pay interest
- Ownership and trust structure options
- Policy ownership
- Who should be insured
- Carrier and product options
- Borrowing term
- Collateral

BUILD IN INTEREST RATE CONTROL FEATURES:

- Cap interest rates
- Collar interest rates with a floor and cap
- Swap variable for fixed rate

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COMPARE

TWO STRATEGIES WITH OR WITHOUT FINANCING

ASSUMPTIONS:

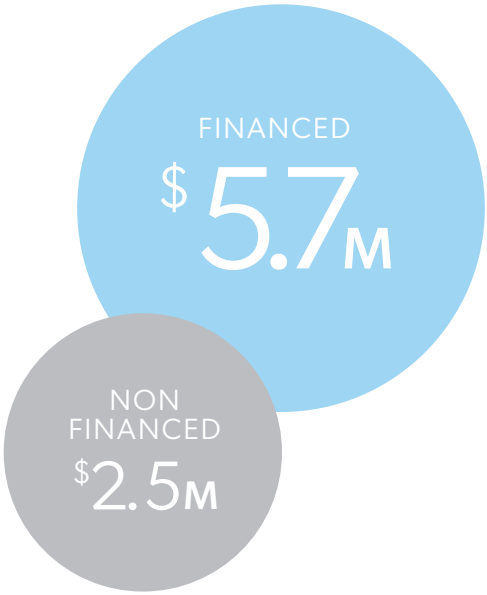
SAME CASH OUTLAY

$1,050,000

FEMALE: AGE 50 | PREFERRED HEALTH | LOAN INTEREST RATE: 3.75%

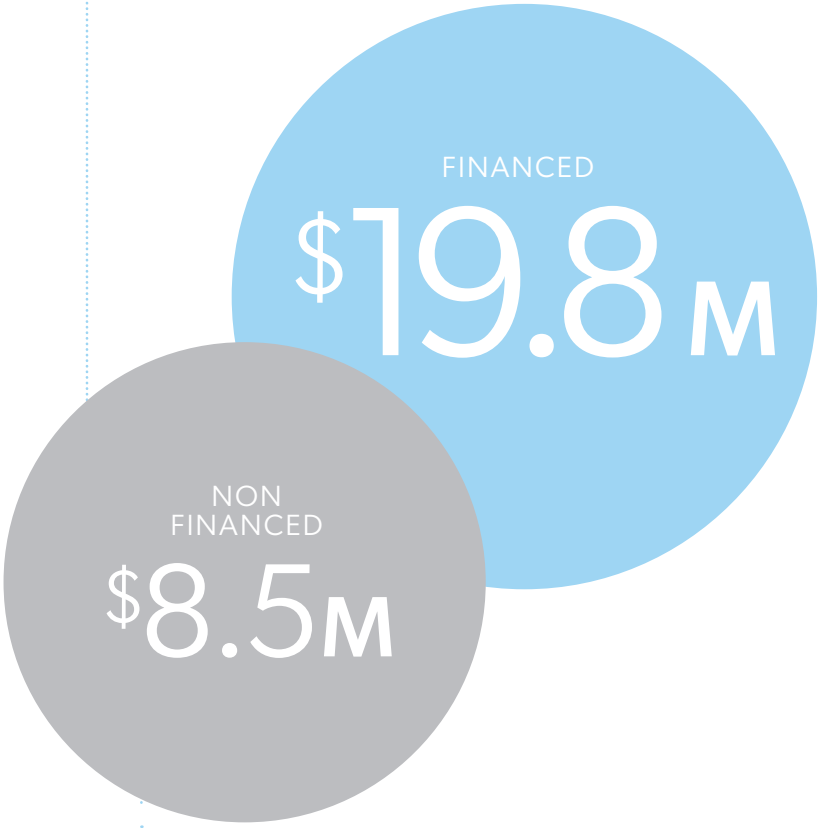
STRUCTURED FOR CASH GROWTH

YEAR 20:
CASH AVAILABLE FOR WITHDRAWAL DURING RETIREMENT
(NET OF LOAN)



STRUCTURED FOR ESTATE PLANNING

DEATH BENEFIT AT AGE 90
(NET OF LOAN)



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Who Should Consider?

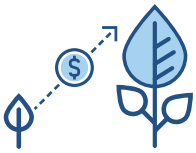
Premium finance is most effective for ultra-high net worth individuals, because banks tend to lend at more favorable borrowing rates. *An individual should meet the following criteria:*

INVESTORS

Investors comfortable with leverage

NET WORTH

Have a net worth of $5,000,000 or more



LONG TERM INVESTMENT

Time horizon greater than 10 years or more

Final eligibility for premium financing will be based on meeting financial and medical requirements for the life insurance policy and the financial lender. Long term investment time horizon greater than 10 years or more.

BORROWER TYPES

For a variety of estate and tax planning reasons, the borrowing entity is not always an individual. In fact, within the United States, most premium finance borrowers are Irrevocable Life Insurance Trusts (ILITs).

Same types of borrowing entities:

1. **AN INDIVIDUAL**
2. **A TRUST**
3. **A CORPORATION**
4. **A SPECIAL PURPOSE VEHICLE**
5. **A LIMITED LIABILITY COMPANY (LLC)**

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WHO SHOULD CONSIDER?

PREMIUM FINANCE FOR BUSINESS OWNERS

Most business owners understand the power of leverage for their business which is why financing the life insurance premiums can be an attractive option. Life insurance is frequently utilized to address a number of common objectives. Borrowing to pay life insurance premiums can free up assets for other business initiatives.

WHY FINANCE?

Preservation of capital: Amortize your payments over the term of the loan and free up working capital to invest in other business opportunities.

Availability of credit: Keep your credit lines open for other business purposes.

Potential for higher returns: Earn more on the retained capital than you would by paying your insurance premiums outright.

Flexibility: An array of options on the loan, insurance policy, and ownership structure to match your clients' goals and objectives. Ability to also alter and modify certain aspects after initial placement in order to stay nimble with the market environment.

BUSINESS APPLICATIONS

- EXECUTIVE BONUSES
- SPLIT-DOLLAR
- BUY/SELL
- KEY MAN
- PARTNER BUYOUT
- SUCCESSION PLANNING
- HIGHLY COMPENSATED EMPLOYEE INCENTIVES

FOR BUSINESS OWNERS IN THE GROWTH STAGE:

Split Dollar, Buy-Sell Agreement, Executive Bonus, Retirement Income

Business Owners in the growth phase are clients who:

- Are 40 to 60 years old
- Minimum net-worth $5M or possess a strong company balance sheet
- Are focused on the growth of their business

FOR BUSINESS OWNERS IN TRANSITION PHASE:

Insured Family Legacy, Buy-Sell Agreement, Retirement Income Maximization, Life Insurance as an Asset Class

Business owners in transition are clients who are:

- 65+ years old
- Planning their exit strategy
- Looking at retirement

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Loan Information

In a premium financing deal, banks will typically loan up to 95% of the cash value in a policy to fund a transaction. The loan will come from an independent lender. Each lender will have its own rules, procedures and requirements.

Lenders are willing to lend at 95% loan-to-value ratio because the policy has the backing of the insurance company, relatively low volatility, and the certainty of the death benefit payout. The banks consider these policies as strong collateral from a risk perspective.

LENDER REQUIREMENTS

Every client who engages a lender will be asked to present the following:

1. Personal financial statement
2. Three years of tax returns
3. Bank statements
4. Trust documents
5. Insured & Trustee information
6. Credit check

LOAN FEATURES

THE AMOUNT

The minimum loan amount is set by each individual lender. Banks are willing to loan based on the financial strength of the borrower and the structure is designed on a client-by-client basis.

THE TERM

The premium loan is typically lent on an annual basis. This means that if the insurance policy continues to perform under the terms of the various agreements, and if the economic case for maintaining the structure remains viable, the bank will continue to loan an additional premium each year.

REPAYMENT

Generally, the loan repayment is going to come from the cash value in the policy which takes 5 to 7 years to accumulate. Loan repayments generally occur between year 10 to 20, based on policy performance and interest rates.

INTEREST RATE HEDGING

CAPS

A cap will put a ceiling on how much interest you pay each year even if interest rates rise.

COLLARS

A collar will put a floor and a ceiling on how much interest you pay each year.

SWAPS

A swap allows us to exchange a variable rate contract for a fixed-rate.

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Insurance Underwriting

5

STEPS TO COMPLETION

The life insurance underwriting process varies by case and takes approximately 4 to 5 weeks to issue a policy.

Steps may include:

1. SCHECHTER UNDERWRITER ADVOCATE WILL CONTACT YOU TO:

- Complete our Fact Find Questionnaire - this may take 5 to 10 minutes
- Obtain a list of your doctors and a signed HIPAA form
- Let you know what to expect from an insurance exam

2. SCHECHTER COLLECTS AND SUBMITS RECORDS:

- Schechter will contact your doctors to obtain medical records at no cost to you
- Schechter will submit records to various insurance carriers for review & obtain preliminary offers

3. MEDICAL EXAM IS COMPLETED AT YOUR CONVENIENCE:

- Schechter will contact you with tips to prepare for the exam
- The exam is at no cost to you

4. PREPARE FOR FORMAL INSURANCE APPLICATION:

- Schechter will obtain signatures for all formal application paperwork
- You may be contacted to complete a telephone interview with an independent, third party reporting firm that will verify the information you have provided on the application
- Schechter gathers and submits financial information

5. FORMAL POLICY IS ISSUED BY INSURANCE COMPANY:

- Your Schechter Underwriter Advocate will contact you and collect any signatures and funding necessary to place your policy in force

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What's the Process?

THE FLiP Process

Schechter's Financed Life Insurance Program (FLiP), is a customized strategy, tailor-made for each client. We leverage our deep industry knowledge and relationships - with highly rated lenders and carriers - along with our full-service back office, fit with strategy design analysts, attorneys, senior-level underwriters and post-sale service professionals, to ensure all details are covered.

1. Customized Preliminary "Premium Financing" Proposal

- Identify Lending Source
- Select Product Type
- Optimal Product Design
- Collateral Identification

2. Third-Party Loan Application Submission

- Collection & Submission of Required Personal or Business Documentation
- Lender Premium Financing Guidelines

3. Life Policy Underwriting

- Medical & Financial Underwriting
- Formal Life Application
- Carrier Premium Financing Guidelines
- Cover Letter Submission

4. Final "Premium Financing" Proposal

- Final Lender Term Sheet
- Final Product Selection & Optimal Design

5. Life Policy Acquistion

- Life Policy Approval
- Coordination of Funding of Policy Premium From Lender
- Collateral Verfication
- Interest Payment Coordination to Lender
- Policy Binder Delivery

6. Annual Policy & Loan Review

- Coordination of Funding of Policy Premium
- Collateral Verification
- Annual Performance Report
- Policy Review Binder
- Coordination of Policy Changes
- Traditional Servicing

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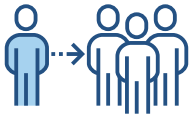
Accessing Your Money

Depending on a client's objective, policy performance, and current market environment, there are multiple strategies to evoke when accessing the funds rendered from a premium finance deal.

FOR CASH GROWTH

A policy holder has a right to access funds accrued in their policy any time as a tax-free distribution in the form of cash. However, waiting to access the cash, preferably after year 10-12, is typically more advantageous as it takes time for these policies to grow. A client can access roughly 90% of the cash surrender value in the policy at any time. As money is withdrawn from the contract, its value starts to deplete based on the amount removed. If the cash value in a policy isn't accessed during a client's lifetime, it is transferred to their beneficiaries in the form of a tax free death benefit.



FOR ESTATE PLANNING

If a client has structured their policy with estate planning as their objective, they likely won't access the policy's cash value during their lifetime. Upon the insured's death, the policy death benefit will be distributed to a trust, charity, or designated beneficiaries tax-free.

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Considerations

INTEREST RATE FLUCTUATIONS

While LIBOR tends to fluctuate daily, the purpose of caps, collars, or swaps, is to mitigate the risk. Depending on the current market environment, rates will move up and down at a given time during the life of a loan. This will affect the amount of interest an individual will have to pay and will be variable. If rates drastically increase, it could affect program performance.

COLLATERAL

In the early years of the policy, the amount borrowed from the bank will exceed the cash in the policy, and will thus require outside collateral.

POLICY MISMANAGEMENT

If the policy lapses due to too much taken out it becomes taxable. Annual monitoring, servicing and in-depth structure analysis is recommended.

STRUCTURE, LEGAL & TAX

STRUCTURED FOR CASH GROWTH:

When designing a policy as a cash value investment, most individuals decide to hold the policy in either their revocable trust or somewhere else within the estate. This allows the client to access cash flow and have full control and flexibility over the asset during his lifetime. If a client never withdraws or loans from the policy, the death benefit proceeds, which will always be greater than or equal to the cash surrender value, will still pass onto their beneficiaries and would be included in the client's estate. This means it could be subject to estate taxes depending on whether the death benefit is greater than the current exemption.

STRUCTURED FOR ESTATE PLANNING:

In a typical premium financing arrangement that is designed for death benefit, the client establishes an irrevocable life insurance trust (ILIT), which borrows the funds and acquires the life insurance policy. Holding the policy in a properly structured ILIT helps ensure that, under current law, the death benefit and cash value pass to the client's family free of estate taxes. Another advantage to clients that want to borrow is for estate planning purposes due to gifting limitations. In a traditional non-financed arrangement, the policy holder makes annual contributions to cover the premium payments. Often, these gifts exceed the $15,000-per-beneficiary annual gift tax exclusion, so they use a portion of the policy holder's lifetime exclusion or, if the exclusion has already been exhausted, trigger gift taxes. With premium financing, annual contributions are generally limited to interest payments on the loan, which are more likely to fall within the annual exclusion.

This is not a comprehensive outline of all risks. Investors should consider all risks when borrowing money and buying insurance.

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Frequently Asked Questions

Whether you're a high-net-worth client that desires an additional tax-free income stream in future years or desiring significant death benefit to pass to your heirs, financing life insurance premiums should enable you to earn a spread between expected policy returns and the borrowing rates.

Premium finance is not a set it and forget it investment, nor is it one-size-fits-all. In its most effective form, it's a custom-built strategy with a pulse, and requires frequent care throughout a policyholder's lifetime.

1

PREMIUM DOLLARS GOING INTO THE CONTRACT

Q: Is there any benefit to paying some premium out of pocket?

A: The decision to borrow every premium or fund some out of pocket is customizable to each individual. Your liquidity and investment objective must be taken into consideration when designing and implementing these complex strategies.

2

WHEN & HOW TO PAY BACK THE LOAN

Q: Do I wait and pay it off with the policy's death benefit?

A: Every premium finance design is different; there is no one size fits all. One of the most important aspects of this program is the ongoing maintenance and monitoring of the transaction. Your advisor will work with you to carefully monitor policy performance, your changing needs, interest rates and lending sources. The answers to these questions change over time; your advisor will manage and inform you over the course of the policy's lifetime.

3

HANDLING INTEREST PAYMENTS (PT. 1)

Q: Do I pay interest out of pocket every year or let interest accrue?

A: Paying interest out of pocket or letting it accrue is specific to each individual situation. If there is enough available collateral, and the alternate use of funds nets higher returns than the financed life insurance, it may be advantageous to delay making interest payments. This will depend on each lender and your financial standing.

4

HANDLING INTEREST PAYMENTS (PT. 2)

Q: Do I let the cash in the policy grow for 'x' years, then use it to pay the interest?

A: Most well-structured premium finance programs use policy values to make some interest payments before the loan is paid back. The number of years it takes to reach that point will vary depending on your age and health profile, financial situations and borrowing capacity.

5

SECURING & REFINANCING THE INITIAL LOAN

Q: How do I select a lender?

A: As interest rates change and credit markets evolve, it is very important to select an advisor that closely monitors the landscape and has access to a variety of premium finance sources.

6

ANNUAL POLICY REVIEW

Q: How do I know my Premium Finance Program is performing as planned

A: Schechter's in-house service team will monitor and report policy and loan performance yearly and make recommendations for program modifications if needed.

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CASE STUDY #1

ESTATE PLANNING

Premium Finance *(Structured for Death Benefit)*

EXECUTIVE SUMMARY

Client needs $20 million of life insurance to handle future estate tax bill due to illiquidity of his estate. They would like to use leverage to secure the desired death benefit for the future estate tax liability.

THE CHALLENGE

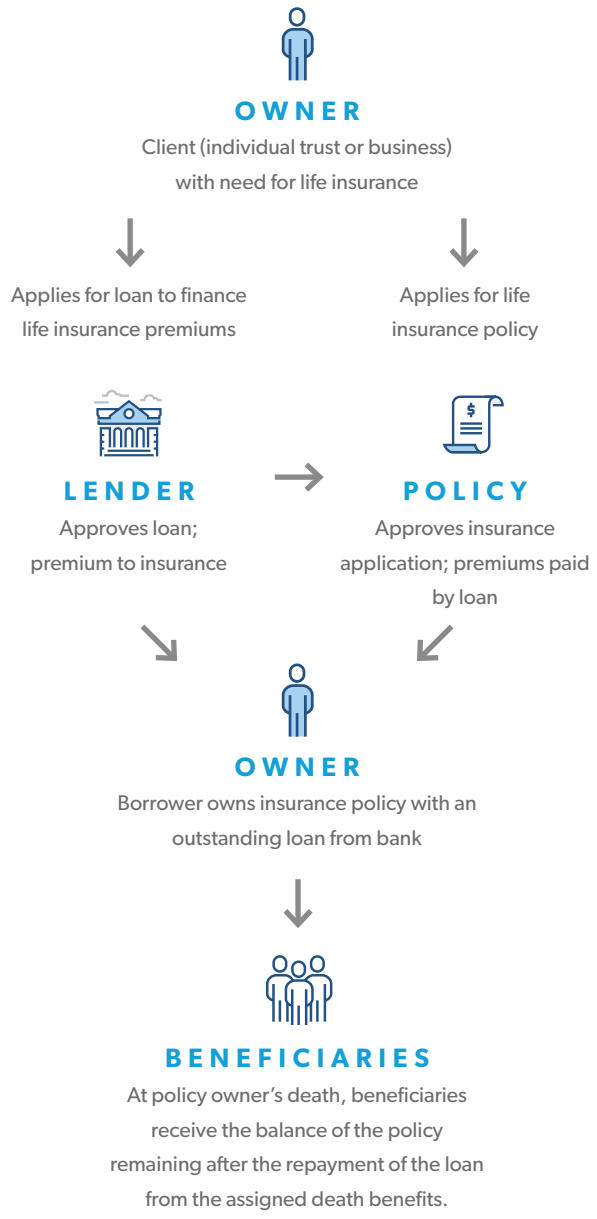
The client does not want to liquidate assets to fund the insurance policies. By borrowing to secure the insurance need, client can minimize out of pocket expense and realize a better rate of return on the dollars dedicated to the insurance program.

THE SOLUTION

Schechter underwrites the client for a significant amount of life insurance with an annual premium of $1 Million. The policy is used as primary collateral (95% LTV) and minimal additional outside collateral is required in early years before cash value begins growing significantly. Client pays interest expense annually and by year 20, policy cash value grows sufficiently to pay back the loan and leave client with desired death benefit.

THE RESULT

Policy is obtained with significantly lower out of pocket cash flow. Policy should produce a higher potential expected return than a typical non-financed life insurance policy.



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CASE STUDY #2

CASH GROWTH

Premium Finance *(Structured for Future Tax Free Income)*

EXECUTIVE SUMMARY

A wealth advisor has a client who desires to capitalize on the arbitrage between low interest rates and secure a predictable rate of growth in a properly structured insurance product.

THE CHALLENGE

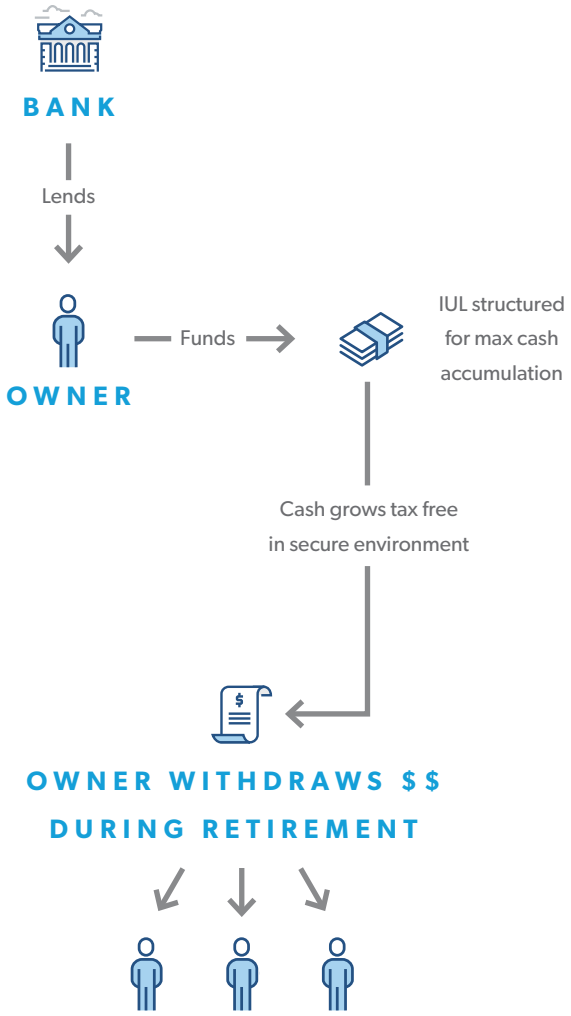
The advisor has a novice understanding of the complex world of financed life insurance, the lending opportunities, and proper policy structure that optimize the program to succeed.

THE SOLUTION

Schechter underwrites the client for a significant amount of life insurance with an annual premium of $1.2 Million. The policy is used as primary collateral (95% LTV) and minimal additional outside collateral is required. Client pays interest expense for the first 7-10 years, and by year 20, policy cash value grows sufficiently to pay back the loan and leave client with over $5 million of equity in the policy.

THE RESULT

Client has significant equity in the policy after loan is paid back. These dollars can be accessed tax free during lifetime. Client can use cash flow during lifetime or pass on death benefit to heirs. Overall return on dollars invested into the program are expected to be between 8-12% after tax net of fees.*



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** Fees are determined on: age, health, gender, smoker/non-smoker. Returns will be materially lower due to charges. The calculations above are Schechter's views based on the data of the S&P 500. Past performance is not indicative of future returns. Insurance products offered through Robert Schechter & Associates, LLC (dba "Schechter Wealth" and "Schechter") are issued by various third-party carriers. Securities offered by Schechter Wealth employees in their capacity as registered representatives of third-party broker dealer Chalice Capital Partners, LLC ("Chalice"), member FINRA, SIPC. Chalice has no common ownership with Schechter Wealth or any of its affiliates.*

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Disclaimers

There are risks inherent in any borrowing strategy, including life insurance premium financing. Prospective investors should fully understand and consider these risks before engaging in a premium finance transaction with a bank or financial institution. These risks include, but are not limited to: (i) interest rate fluctuation risk, (ii) market volatility risk, and (iii) the possibility of collateral shortfall, which may lead to a margin call. Insurance professionals and financial advisors should review these risks with prospective clients in order to craft suitable financing plans that are tailored to each individual client's facts and circumstances. Before deciding whether to finance the acquisition of high-value life insurance by borrowing, we encourage any prospective client or investor to discuss your objectives with your financial advisor as well as your legal and tax advisors. This document is not intended to give legal or tax advice. The material discussed in this advertisement is not intended to project or predict the success or suitability of any particular premium financing strategy. Any discussion or illustration of projected bank loan payoff and income stream from policy loan(s) and withdrawals will vary based on the particular policy & loan performance. Actual results will vary depending upon age, insured health rating, premium amount, death benefit amount, insurance policy, loan amount, interest rate, performance and other variables. Past performance is not indicative of future results.

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