

MONEY MYTHS SERIES

Premium-Financed Life Insurance and Kai-Zen: Is Bank-Funded IUL Free Money? (2026)

How bank-financed IUL and Kai-Zen style plans work, what the participant disclosure says, and what rising loan rates do to the payoff.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/premium-financed-life-insurance/

Part of our [money myths series](#), where we check what social media says about money against the actual rules.

The pitch: let the bank pay for your life insurance. You put in a few years of contributions, a lender funds two or three times as much in premiums, and the extra money grows in an indexed universal life (IUL) policy until the policy pays the loan back and leaves you a bigger retirement fund. No interest payments, no personal guarantee, borrowed money that used to be only for the rich.

The verdict: premium financing was built for people with millions in assets who can post more collateral when things go wrong. Sold to regular earners, it stacks two variable bets: the loan rate has to stay low and the policy has to earn what the illustration shows, for 15 years or more. When either one misses, the loan can swallow the policy, and the people who sold it have already been paid.

0.05% to 5.38%

SOFR at year-end 2021 vs. 2023 (Federal Reserve Bank of New York)

\$5 to \$10 million

minimum net worth "most funders" require for traditional premium financing (agent guide)

\$1 to \$10 million

typical premium finance loan size, per U.S. Bank

\$100,000

household income Kai-Zen lists to qualify, with \$22,000 a year in contributions (NIW)

\$2.25 million

stipulated FINRA award against a broker over a 100% premium-financed IUL (May 2026)

What is premium-financed life insurance?

It's a life insurance policy whose premiums are paid with a bank loan, with the policy, and often other assets, pledged as collateral.

U.S. Bank describes it as "a way for high net worth individuals and families" to pay premiums without using cash. Its page says loans typically range from \$1 million to \$10 million, the rate is variable, based on the prime rate or SOFR, the borrower pledges collateral and gives full financial disclosure, and periodic interest payments are required. It also says the source of repayment "cannot be the life insurance policy's death benefit," and calls the idea that financed insurance is "free" a "common myth."

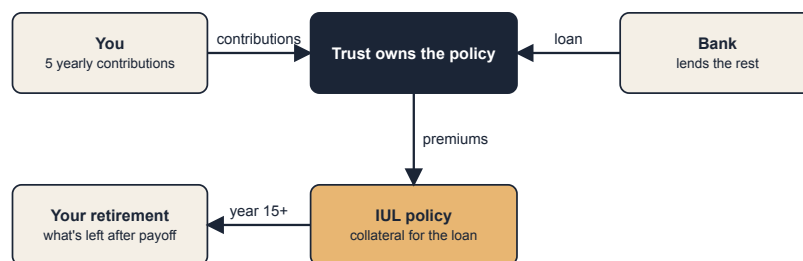
A distributor's agent guide from CBS Brokerage puts the bar higher: "Most funders require applicants to have a minimum net worth in the \$5 to \$10 million range." The guide says the lender may demand more collateral if the policy or the pledged assets underperform, and that renewal of the loan "is not guaranteed."

The social media version takes the same structure to people with a W-2 job and no spare millions. It's the borrowed-money version of the IUL "Roth alternative" pitch and of infinite banking.

How does a Kai-Zen style plan work?

You contribute for five years, a lender funds the rest of the premiums into an IUL owned through a trust, and the policy is projected to repay the loan around year 15.

Kai-Zen is the best-known retail program. Its sponsor, NIW Companies, says on its own site that Kai-Zen "offers you up to an additional 3 times more money to fund a unique cash accumulating life insurance policy using leverage," and advertises "60 - 100% More for Retirement." To qualify, NIW lists a household income of at least \$100,000, a minimum contribution of \$22,000 a year, and ages 18 to 65. NIW's brochure says the loan is projected to be repaid "approximately by the end of the 15th year," with the policy's cash value "as the sole collateral for the loan," and that trust fees of \$1,350 a year are added to the client trust.



A Kai-Zen proposal template says premium financing has been used by "wealthy individuals and estates (typically \$10M and over)" and that Kai-Zen is "a new variation on this approach." A 2019 NIW cover letter for Allianz policies required a net worth of at least \$1 million for applicants earning \$100,000 to \$199,000.

Who gets paid. Commissions on life insurance are paid on the premium, and a financed policy has a large premium from the first year, most of it borrowed. NIW's 2019 Allianz cover letter lists a "30% agent split" to NIW on Kai-Zen cases. The CBS agent guide says "some funders require a commission split" too. The lender earns interest every year the loan is out. The trust administrator collects trust fees. In the cases below, policyholders alleged their agents earned large commissions; one complaint alleged about \$240,000. If the program works, the participant gets a retirement benefit years from now. Everyone else is paid up front.

What does the fine print say?

NIW's advertising and NIW's participant disclosure don't say the same thing.

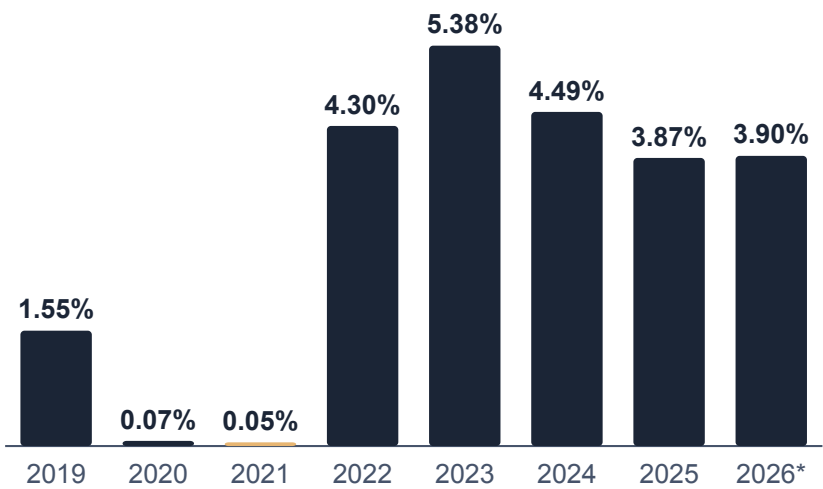
The Kai-Zen web page lists "No interest payments," "No personal guarantees," and "No loan documents." The Kai-Zen Plan Individual Acknowledgment & Disclosure that participants sign says the participant's insurance trust "shall be liable for the repayment of any loan proceeds paid into its policies, including principal and interest." It warns that if the policy fails to meet the illustrated projections, you may have to make additional contributions, and that if you don't, the plan sponsor "probably will" terminate your participation, which can "result in a loss of value" leaving the trust worth less than you put in. While the policy is collaterally assigned, "no withdrawals or distributions can be made." Disputes go to arbitration in Dallas, Texas. NIW's Allianz enrollment guide lists the loan type as "Recourse."

NIW's own web page includes the lender's escape hatch: "The lender has the right to discontinue funding new premiums, exit the market, or to demand loan repayment based on the terms and conditions" of the loan. NIW also sells a "Premium Finance Rescue" service and says many financed cases "lack the proper design and do not have the ability to survive under minor performance."

What happens when interest rates rise?

The loan grows faster than the illustration assumed, and that comes straight out of what's left for you.

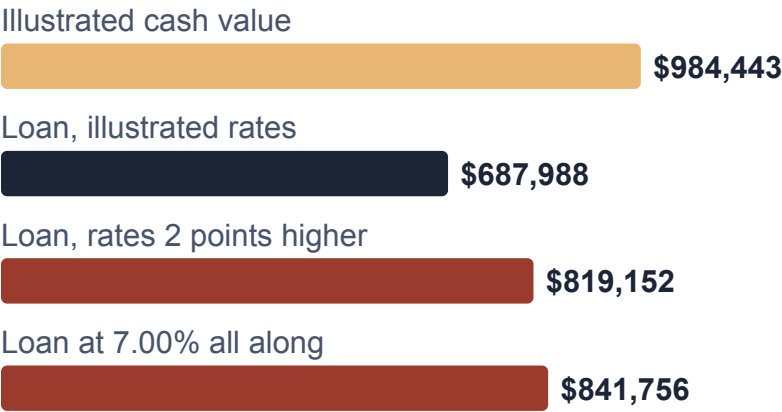
Premium finance loans usually float. U.S. Bank says its rate is "variable based on the prime rate or the secured overnight financing rate (SOFR)." The CBS guide says the spread over the benchmark typically runs 1 to 3 percentage points. SOFR was 0.05% at the end of 2021 and 5.38% two years later. Anyone who bought a financed policy in 2020 or 2021, when illustrations used near-zero rates, saw the loan cost jump.



SOFR: Federal Reserve Bank of New York. Prime: Federal Reserve H.15 weekly averages. *2026 is the latest value, not year-end.

Year	SOFR (date)	Bank prime rate (week)
2019	1.55% (2019-12-31)	4.75% (2019-12-25)
2020	0.07% (2020-12-31)	3.25% (2020-12-30)
2021	0.05% (2021-12-31)	3.25% (2021-12-29)
2022	4.30% (2022-12-30)	7.50% (2022-12-28)
2023	5.38% (2023-12-29)	8.50% (2023-12-27)
2024	4.49% (2024-12-31)	7.50% (2024-12-25)
2025	3.87% (2025-12-31)	6.75% (2025-12-31)
2026	3.90% (2026-10-06)	7.00% (2026-09-30)

NIW's posted Kai-Zen sample illustration is for a 39-year-old man with a \$1.5 million death benefit. He contributes \$26,500 a year for five years, \$132,500 in total. The illustration assumes a loan rate that starts at 3.50% and rises to 5.00%, and shows a loan of \$687,988 at year 14, against a policy worth about \$984,443, leaving about \$296,455 for him. We recomputed that loan with rates two points higher each year and at a flat 7.00%, keeping the illustrated policy values. It's a hypothetical, and the illustration itself says values aren't guaranteed.



Participant contributions in the sample: \$132,500 over five years, which include trust fees. Our reconstruction compounds the illustration's bank advances at each rate and is scaled to the illustration's own year-14 loan figure. The cash value is held at the illustrated amount, which is not guaranteed.

Year 14 (age 53 in the sample)	Bank loan	Left for the participant if the policy performs as illustrated
Illustrated loan rates (3.50% rising to 5.00%)	\$687,988	\$296,455
Loan rates 2 points higher every year	\$819,152	\$165,291
Loan rate 7.00% every year	\$841,756	\$142,687

At two points higher, what's left at year 14 drops to about \$165,291. At 7%, about \$142,687, close to what he contributed, and that's if the policy credits what the illustration shows every year. If the policy also underperforms, the loan can exceed the policy's value. A consumer advocate's handout presented to an NAIC committee in June 2026 ran 1,000 random scenarios on one financed IUL design and reported "620 LAPSES out of 1000 Trials," with many failures occurring "at the point of paying off premium financing."

What goes wrong in real cases?

Court records show financed policies collapsing when the loan comes due, when rates rise, or when the policy underperforms, and the borrowers sue the people who sold them.

- ✓ **A FINRA arbitration award.** In FINRA case No. 23-03617, investors alleged a broker advised them to buy indexed universal life in an irrevocable trust "using a 100% premium-financed strategy" and that he "earned a massive commission." In a stipulated award served May 8, 2026, the broker was ordered to pay \$2.4 million, \$2.25 million after a \$150,000 credit. Those were allegations; the award was by stipulation, without a hearing on the merits.
- ✓ **A surrender at a loss.** In *Pape v. Braaten*, No. 18 C 1481 (N.D. Ill. 2019), the borrower alleged he was told he "would only have to make one initial premium payment." According to the court's summary of the complaint, he surrendered the policies in 2018 for \$1.8 million, which didn't cover the \$2,542,406.02 owed on the loan, including over \$250,000 in interest, and he alleged about \$150,000 in surrender charges. The borrower settled with the agent defendants in 2022.

- ✓ **The note came due.** In *Margules v. Massachusetts Mutual Life Insurance Co.*, No. 23-CV-02584 (E.D.N.Y. Sept. 3, 2025), the loan matured at the policy's fifth anniversary. Extending it required a new financial statement, tax returns, and proof of liquidity. The policy was surrendered and the proceeds paid to the lender, and the court granted summary judgment to the insurer and lender.
- ✓ **Rates above the illustration.** In *Stevenson v. Massachusetts Mutual Life Insurance Co.*, No. 9:24-cv-00109 (D. Mont.), the plaintiffs alleged their illustration showed loan rates from 3.04% to 5% that "never exceeded 5%," that rates rose higher, and that the debt outpaced the policies. In August 2025 the court denied several defendants' motions to dismiss in full.
- ✓ **A Kai-Zen lawsuit.** In *Johnson v. Allianz Life Insurance Co. of North America*, No. 3:26-cv-00435 (W.D. Wis.), removed to federal court in May 2026, a policyholder alleges he bought an Allianz IUL through the Kai-Zen strategy in 2017, paid \$250,000, and owed \$737,623 on the loan as of October 2025. According to the defendants' notice of removal, he alleges no one explained that the bank could refuse to fund further premiums and call the loan if the policy didn't perform. The defendants say they don't admit the allegations, NIW isn't a named defendant, and as of October 7, 2026, the court hadn't ruled on the motions to dismiss.

What do regulators say?

Regulators are paying attention, but they haven't written a rule aimed at selling financed IUL to ordinary earners.

On June 15, 2026, the NAIC's Life Insurance and Annuities (A) Committee heard a presentation titled "Indexed Universal Life (IUL) and Premium Financing: It's Not Free Life Insurance" from the Life Insurance Consumer Advocacy Center. In an August 2026 letter, the American Academy of Actuaries responded that "premium financing is primarily a sales process issue or a best interest issue," not an illustration issue. A 2023 LIMRA survey found that 11 of the responding IUL carriers allowed premium financing, and one carrier said, "We can't prevent it, but we discourage premium financing."

California's insurance code touches premium financing mostly through its rules against stranger-originated life insurance. Insurers may ask whether a policy is financed, but "the existence of premium financing may not be the sole criterion" for rejecting it (Ins. Code, § 10113.2), and a premium finance lender can't take extra compensation from the policy beyond principal, interest, and reasonable costs (Ins. Code, § 10113.3(o)). Kentucky and Alabama have warned consumers about "zero premium" life insurance that relies on undisclosed financing, though those alerts targeted older buyers in stranger-owned schemes.

Is premium-financed life insurance ever a good idea?

It can be, for a family with a real need for a large permanent policy and enough outside assets to post collateral, pay interest, and pay off the loan without relying on the policy.

That’s who U.S. Bank and the agent guides describe: high net worth families, often for estate liquidity, with the policy usually owned by an [irrevocable life insurance trust](#). Even then, the plan needs an exit that doesn’t depend on the illustration. U.S. Bank’s article quotes its own premium finance banker: “It’s important to have an exit strategy from the policy other than death.” If you’re a household earning \$100,000 to \$300,000, you don’t have that cushion, and the program’s own disclosure says you may have to make more contributions or lose your place.

Comparison: financed IUL vs. funding retirement directly

	Kai-Zen style financed IUL	401(k), Roth IRA, and term life
Your money in	Fixed contributions for about five years, more if the policy falls short	Whatever you choose, adjustable any year
Borrowing	Variable-rate bank loan, often hundreds of thousands of dollars	None
Access to your money	None while the loan is outstanding, per NIW's disclosure	Rules vary, but the account is yours
What can end it early	Lender exits or calls the loan, policy underperforms, you miss a contribution	Nothing outside your control
Dispute forum	Arbitration in Dallas, Texas (NIW disclosure)	Ordinary courts and regulators
Who's paid up front	Agent, marketing organization, lender, trust administrator	Fund expenses and low-cost term premiums

What should you do instead?

- 1 Fill the accounts the tax code gives you**
Workplace plan to the match, then a Roth IRA, then more 401(k). Our [IUL page](#) compares the math.
- 2 Buy the life insurance you need, unfinanced**
For most families, that’s term coverage while children are young. See our [guide to life insurance in an estate plan](#).
- 3 If you’re shown a financed plan, ask for the stress test**
Ask for the illustration at guaranteed values, with loan rates 2 and 4 points higher, and ask what you’d owe if the lender stopped funding in year 3.
- 4 Read the participant disclosure, not the brochure**
Look for who is liable on the loan, whether you can be removed, how disputes are resolved, and what fees are charged every year.
- 5 If you already own one, get an independent review now**
Ask someone who isn’t paid on the sale to project the loan at today’s rates, and talk to a lawyer before you surrender, sign a new loan, or post collateral.

Questions people ask

Is Kai-Zen a scam?

We're not aware of any regulator finding that it is. It's a real program offered with real insurers. The problem is fit: NIW's own materials say premium financing grew up with estates "typically \$10M and over," and the program's disclosure puts the risk of underperformance on the participant.

Do you pay interest on a Kai-Zen loan?

Not out of pocket while the plan runs, according to NIW's ads. But NIW's participant disclosure makes the insurance trust liable for principal and interest, and interest that isn't paid grows the loan.

What is a collateral call?

The lender demands more collateral because the policy is worth too little. The CBS agent guide says the lender may require more collateral after adverse performance.

Can the bank stop lending?

Yes. NIW's own page says the lender can "discontinue funding new premiums, exit the market, or to demand loan repayment."

Is premium finance loan interest tax-deductible?

Generally no for an individual. The CBS guide says it's "personal interest." Ask a tax adviser about your facts.

Who should consider premium financing?

Families with large estates, a genuine need for permanent coverage, and enough outside assets to pay interest and post collateral for years. Most W-2 earners aren't in that group.

Related reading in our [money myths](#) series: [IUL as a Roth alternative](#), [infinite banking](#), [velocity banking](#), and ["guaranteed" annuities](#).

This page is general information about California and federal law. It isn't legal, tax, or investment advice for your situation. Lawsuit descriptions report allegations unless a court or arbitrator decided them.

SOURCES

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- CBS Brokerage, [Premium Finance Agent Guide](#) (2018).
- NIW Companies, [Kai-Zen](#) and [Premium Finance Rescue](#) pages, accessed October 7, 2026; [program brochure](#) (2021); [participant acknowledgment and disclosure](#); [Cover Letter for Allianz](#) (March 2019); [Allianz Enrollment Process](#); [sample illustration](#) (undated); [proposal template](#) (undated).
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- *Pape v. Braaten*, No. 18 C 1481 (N.D. Ill. Sept. 30, 2019), [opinion](#) and [docket](#).
- *Margules v. Massachusetts Mutual Life Ins. Co.*, No. 23-CV-02584 (E.D.N.Y. Sept. 3, 2025), [opinion](#).
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- *Johnson v. Allianz Life Ins. Co. of North America*, No. 3:26-cv-00435 (W.D. Wis.), [docket and notice of removal](#) (May 8, 2026).
- NAIC Life Insurance and Annuities (A) Committee, [agenda](#), [June 15, 2026](#), and presenter [handout](#); American Academy of Actuaries, [comment letter](#) (August 6, 2026).
- LIMRA, [Premium Financing for IUL Sales eSurvey](#) (2023).
- Cal. Ins. Code, [§ 10113.2](#) and [§ 10113.3](#).
- Kentucky Department of Insurance, ["Zero Premium" Life Insurance alert](#) (May 2010); Alabama Department of Insurance, [zero premium consumer notice](#).

Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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