



LIFE & ANNUITY IMO SINCE 1972



LIFE SETTLEMENT

Understand Your Options

INTRODUCTION

The idea of life settlement has become more and more popular over the years among seniors. Considering that roughly \$900 billion of life insurance death benefits lapse every year, having another option to “keep versus lapse” is vital.

The opportunity to sell your policy to a third party, such as an investor, is what our industry calls “Life Settlement”. Consider that in the hands of an investor, a life insurance policy is simply an “investment.” The definition of a life settlement is simply the sale of a life insurance policy from the original policy owner to a third-party investor.

The selling policy owner receives an upfront cash payment in exchange for transferring ownership of the life insurance policy. This is typically more than any existing cash value but less than the policy’s full death benefit – and the investor, as the new owner, then continues to make the ongoing/annual premium payments. When the insured passes away, the investor collects the policy’s death benefit.

WHY AREN'T MORE AGENTS TALKING ABOUT LIFE SETTLEMENTS?

Though Life Settlement can be a valuable financial planning tool, many agents do not discuss this option with their clients. Why is this? There are several reasons. Some agents are actually prohibited from discussing life settlement with their clients. An agent’s insurance company or broker/dealer contract bans such agent/client conversations even if it is in the client’s best interest.

While other agents simply are unfamiliar with life settlement.

Let’s examine some of these reasons below.

Reason 1 "I am not authorized to discuss it"

Independent and contracted agents or representatives of large insurance carriers or broker-dealers operate at the request of their employers or employee contracts, some of which ban participation or even discussion of the life settlement option to their clients.

Reason 2 "I am not familiar with the life settlement concept."

Although life settlement has been around for a while, many agents still are relatively unfamiliar with it and need additional training to feel comfortable discussing this with their clients.

Continuing education has not been available until recently and training programs are approved in just a few states. It really is a benefit to clients when agents educate themselves about life settlement.

Life Settlement Hub has online courses specifically designed to educate life insurance policy holders and agents. To setup your free account to access this online course please contact Joseph Loughran: P: 800-375-2279 | E: jloughran@carylevinson.com

Reason 3 "I'm waiting for the issue to come up."

If your client is concerned about their upcoming annual life insurance premiums and how they are going to pay for it, that would be a good time to bring up the life settlement option. However, there is a good probability that your client has not heard about life settlement and will not bring it up in conversation.

The truth is that many seniors are orphaned policyholders with no servicing agent. Their only contact is with the issuing company and no agent to oversee the client's best interest.

Your client's policy may qualify for a life settlement and this option may be a tremendous financial help to them. You can simply ask, "Has your life insurance policy been reviewed recently?" That question can be worth its weight in gold.

Reason 4 "I manage assets. I don't do insurance."

This is a common objection from broker/dealer and financial advisors who don't understand that an insurance policy is an asset to be managed like a mutual fund, stock, or a bond portfolio.

If you are a wealth manager and don't understand your client's life insurance holdings, you may be putting your client's other assets at risk. Not all investments perform as intended.

Poorly performing investments are often sold and replaced by other investments. A life insurance contract may also perform poorly. Perhaps, at inception, the policy illustration was shown with a projected rate of interest that is no longer attainable. The scheduled premium may no longer support the illustrated cash values or even the death benefit.

An insurance agent or financial advisor should perform an annual policy review with current ledger illustrations to make sure that policy premiums are adequate to maintain projected cash values and the death benefit.

The policy review will also raise the issue of whether the coverage is adequate. Policy management also addresses the issues of replacement, insurability, possible tax consequences, and life settlement.

Reason 5 “I prefer to recommend a 1035 exchange for replacement.”

Usually this objection comes from not understanding the value life settlement creates or the tax considerations. Nearly half of all life settlement proceeds go into acquiring new policies, according to the Life Insurance Settlement Association.

If new insurance is acquired, is a 1035 exchange better than a sale in a life settlement transaction?

There is no current tax consequences to a 1035 exchange such that the old life insurance contract is transferred to the new contract and the old policy is traded in at cash surrender value to acquire the new policy.

In the sale of a life insurance policy, there may be a tax consequence upon sale if the proceeds exceed the cost basis. However, to make the comparison fair, the after-tax proceeds must be compared to the existing policy's cash surrender value.

As no taxpayer is in the 100% tax bracket, incremental after-tax gains via sale are almost always greater than the cash surrender value. By definition, a life settlement must be greater than cash surrender value. This means that a qualifying senior has more money at their disposal to acquire a new policy. Historically a life settlement runs an average of 200% to 300% greater than cash-surrender values.

While every case is different, comparing 1035 exchanges to a possible life settlement is the rightway to approach policy replacement.

Reason 6 “I don’t understand how fair market value is created.”

As mentioned earlier, there is a big difference between a policy’s cash surrender value and fair market value. In real estate, the buyer and seller negotiate fair market value. The seller lists at one price, the buyer counters with a lower price, and the selling price is somewhere in the middle.

Contrast that with the competitive bidding process in the secondary market. The highest offer is presented to a policy owner. Wouldn’t it be nice to have 10 potential buyers bidding on your house the way they bid on life insurance policies?

A policy’s cash surrender value represents the bid of one buyer - the issuing insurance company. Do you think this valuation would be higher or lower than competitive bid? A health arbitrage also creates the valuation gap.

Insurance policies are priced based on the insured’s age, sex, and health at the time of application and subsequent health changes cannot be anticipated or accounted for. A buyer in the secondary market looks at the insured’s current health and how health issues affect life expectancy. There is an inverse relationship between policy evaluation and life expectancy.

Reason 8 "I'm not sure how to market this product."

Life settlement is marketed to seniors generally 70 years or older with a health issues that have developed or advanced since the policy's application date. Life settlement providers buy policies when the insured has a two to 12-year life expectancy.

A financial seminar discussing a variety of topics including life settlement may be a great opportunity to introduce the subject. To focus entirely on life settlement may be too narrow a topic. Not every senior owns a life insurance policy, not every policy holder qualifies, and not everyone is interested in disposing of a policy. The life settlement topic makes a good bullet point on a seminar agenda with a brief mention that it is a relatively new concept that could generate cash from a dormant asset.

If senior seminars are not for you, there are other marketing ideas to consider. Approach CPAs, estate attorneys, and trust officers in your network about life settlements, positioning yourself as an expert. Chances are they never heard about life settlements or they are only slightly familiar with them.

You will add value to their service offerings and will introduce them to a new concept, putting yourself in a favorable referral position. You also may want to market life settlements to those who provide other services to seniors, perhaps those who offer senior health care services or those who organize senior activities. You could offer compensation incentives for the to recruit prospects for you.

Finally, connect with the planned giving officer at your alma mater or local university. Universities frequently receive life insurance gifts. Most would prefer getting cash now instead of waiting years to collect a benefit.

A life settlement gives the university the opportunity to get immediate cash. A university could send a letter to alumni who are approaching the age of 70 about making gifts of the proceeds of unneeded or unwanted life insurance policies. Another benefit is the tax deduction for donated assets is the fair market value of the asset.

CONCLUSION

Life settlement is quickly becoming a beneficial option for senior citizens across the nation. Life settlements allows senior to cash in their life insurance, but in a new way. Instead of cashing in their policy with the original life insurance company, they can work with a life settlement broker to cash in their policy with a financial institution that will pay more than their insurance company's surrender value.

Seniors nationwide are quickly learning that surrendering their life insurance policy to their insurance company will not always reward them with the highest payment. Many insurance companies offer a low surrender value and some policies don't have cash value at all.

Life Settlement brokers and companies have the ability to do a brief analysis to determine if a life settlement will provide an amount greater than the surrender value. Pursuing a Life Settlement also does not require any obligation, costs, medical exams, or hassles. Seniors can find out the true value of their policy through a Life Settlement broker and don't have to commit to selling the policy.

A broker will use a comprehensive network of financial institutions and investors to find the highest payment for the policy owner. Brokers will also use the power of negotiations to achieve higher offers.

A life settlement can be a wonderful financial planning tool. It is however important to take the correct steps to get the best advice for the highest payout. The valuation can be completed quickly once the initial analysis is done on the policy and the insured.

For additional information please visit or contact

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