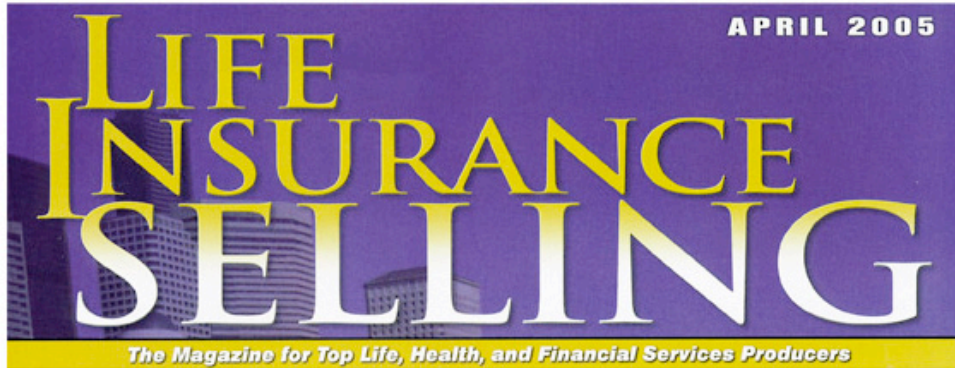


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# Settling End-of-Life Needs

By Larry Simon

*Life Settlement Solutions, Inc. • San Diego*

# SETTLING END-OF-LIFE NEEDS

## Life Settlements Proving to be a Viable Option for Elderly

**By Larry Simon, president and founder, Life Settlement Solutions, Inc.**

Selling life insurance is no longer a one-time transaction. New options for policyholders, such as life settlements, enable brokers to provide clients options never before available.

Several years ago, the producer helped a middle-aged couple design an estate plan, life insurance policy, and planned giving schedule that would best fit their needs, based on their projected end-of-life desires. The producer settled the purchase and moved on to the next client. These days, his or her job shouldn't end there.

People's lives and needs change drastically between ages 65 and 85, and often financial plans made previously no longer apply.

Consider one couple, for example, who no longer has close relatives or friends. Because of moderate health concerns, daily chores at home are more than they can handle, so they move into a retirement center.

The money this couple would have used to pay their life insurance premium now goes to daily living expenses and rising medical costs, so the policy in which the couple paid years of premiums almost certainly will lapse. This lapse occurs with more than 90% of policyholders.

After a policyholder recognizes that life insurance policy no longer fits current or future needs, the producer can provide a valuable service by helping the client convert a life policy into cash. Through a life settlement, the producer can provide his client with financial options previously unavailable. With the cash realized through a life settlement, a client can choose such options as estate plans or planned giving, which may better suit his current financial goals.

These transactions have become important in end-of-life needs for seniors. By liquidating a policy for an amount higher than the policy's cash surrender value, the policy owner receives these benefits:

- \* Funds to cover long-term care;
- \* Profit from a nonperforming asset;
- \* Relief from monthly premium expenses;
- \* Alternative funding for LTC policies, annuities or other investments;
- \* Additional funds to supplement retirement income;

- \* Funds to seek treatments not covered by health insurance; and
- \* New options in estate planning and planned gifts.

## **Determining Whether a Policy is Ripe for Buyout**

After a life settlement company locates an eligible life insurance policy and confirms initial eligibility requirements are met, the insured's medical records are sent to one or more medical evaluators for a life expectancy rating.

If an offer to purchase the policy will be extended to the owner, the results of these evaluations, and information from a policy illustration generated by the insurance company that issued the policy serve as the basis for determining the bid price.

Policies considered for purchase by life settlement companies must meet certain eligibility requirements. The usual criteria formed with the life settlement companies, investors, or lenders are:

- \* The policy must be beyond any carrier or statutory contestability period, fully renewable, and subject only to the payment of premiums;
- \* The insured's life expectancy must be between 25 and 144 months based on one or more medical evaluations from an approved evaluator;
- \* Term insurance policies must have a minimum term life insurance coverage equal to the greater of two times the life expectancy or 10 years.
- \* The face value of such policy cannot exceed \$20 million.

If a policy owner accepts the offer and sells his ownership interest in the policy, he relinquishes ownership and beneficial interest in the policy in exchange for a cash payment. Upon the insured's death, the investor, as designated owner and beneficiary, receives the death benefit of the policy. The capital invested in life settlements earns a "yield" in exchange for assuming the cost to maintain insurance coverage and the timing risks associated with future realization of benefits.

## **Life Settlements No Longer Only for Terminally III**

Life settlements are not viaticals. Unlike viaticals, life settlements (also known as "senior settlements" or "high-net-worth transactions") are based on the proposition that some insured individuals no longer want, need or can afford their coverage. Instead of selling the policy back to the issuing insurance company at less than market value, or allowing the policy to lapse and forfeiting the value, life settlements allow another exit option that can maximize the cash value for the policy owner. Consequently, life settlements have developed into a viable and attractive alternative product.

The market opportunity exists primarily because life insurance companies usually

pay low surrender values when a policy owner decides to redeem or cash in the policy. The surrender values are usually so low that a qualified life settlement provider company can pay a higher value.

Life settlements aren't for everyone. A good candidate typically has \$500,000 or more in universal life coverage, but almost any kind of life insurance, as well as those held in irrevocable life insurance trusts, may qualify. Life settlements are designed for people who are not suffering from a life-threatening or catastrophic illness and whose life expectancy is greater than two years, but typically not more than 10. The policy must have been issued two or more years ago, generally by an A-rated U.S. insurance company.

The reasons a life settlement solution might work for a client are varied. Perhaps the policy owner has accumulated enough wealth that he or she is essentially self-insured. In other cases, the policy premiums may have become too expensive and unaffordable, and the client would like to seek other coverage. Other scenarios might include a policy owner choosing to remove a policy from a taxable estate or replacing a single-life policy with a joint-and-survivor policy.

## **Finding the Right Life Settlement Company**

An evolving market, the life settlements industry has grown a lot in the last few years. It is important for life settlement brokers and agents to understand both the life settlement market and the players with whom their clients will enter agreements. First, brokers and agents should do their due diligence by gathering information from several competitive companies, targeting those whose senior management has had the most life settlement experience. A German company, the Scope Group, has become active in rating and ranking life settlement companies. So far, it is the first and only company to do so. Scope offers information on its Web site: [www.scope-group.com](http://www.scope-group.com). Producers should seek companies with an A-rating or higher.

In addition, the following due diligence guidelines can help producers make the right choice for themselves and their clients:

- \* Look for proven industry experience, preferably at least \$500 million in purchased aggregate face value to date.
  - \* Confirm that the company is institutionally funded and will not re-sell the contract to an individual investor.
  - \* Check with the state attorney general's office or state insurance department for any complaints or legal action against the settlement provider.
  - \* Insist on a settlement provider that uses reputable, independent financial institutions to hold the money in escrow until the change of ownership closes.
- Finally,
- \* Determine and disclose all tax implications to the client.