

LIFE SETTLEMENTS ESSENTIALS



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THINGS YOU SHOULD KNOW

CASE STUDIES

THE LIFE SETTLEMENT EXPERTS

WE ASKED AND THEY ANSWERED. CHECK OUT OUR LIFE SETTLEMENT PANEL.

When it comes to offering clients a wide array of planning choices, finding new products can be difficult, so finding a new transaction is helpful. Life settlements offer that opportunity.

We wanted to get the answers to our questions straight from the experts in the field, so we assembled a small print panel and asked them all the same questions. Their answers may lead you to a transaction you never thought you'd get involved with. They said many of the same things, which only reinforces the viability of life settlements and their place in the estate planning portfolio of seniors.

QUESTION #1: WHAT SHOULD BROKERS AND CONSUMERS LOOK FOR IN A SETTLEMENT PROVIDER?

BRIAN SMITH: A consumer should look for a life settlement provider who only uses institutional funding, is licensed in multiple states, particularly Florida, and has a strong privacy policy.

JORDANA BALSAM: The ideal institutional provider would be one that carries E&O insurance and purchases the full spectrum of policy types, such as variable, universal, whole life, term and

survivorship. The provider should have the ability to be aggressive and competitive in purchasing both small and large face amount policies. Additionally, a key factor is the ability of a provider to accept various age ranges and offer flexibility with the length of the insured's life expectancies.

LARRY SIMON: Agents, working on behalf of their clients, should perform due diligence by gathering information from several competitive companies and targeting those with the most experience and the best resources and reputation.

They should find a firm with an excellent senior management team that has the most life settlement, life insurance, legal and investment banking experience.

CRAIG SEITEL: They should look for a provider with diversified institutional investment sources, quick execution and turnaround time (i.e., how fast the provider can present a price to the broker), quality of the senior management team (brokers should perform due diligence on the executives before entering into a transaction) and how long the firm has been in existence.

OUR PANELISTS:



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QUESTION #2: WHAT IS A COMMON MISPERCEPTION CONSUMERS, AND MAYBE EVEN ADVISORS, HAVE ABOUT LIFE SETTLEMENTS?

SMITH: A common misperception is that life settlements don't work for healthy seniors. Today, leading providers regularly purchase policies where the insured does not have serious health conditions.

BALSAM: Interestingly, most consumers are not even aware of a life settlement as a financial planning option available to them. Some advisors have the misconception that a life settlement is not a moral or ethical option for their client or it is a viatical (the sale of a policy in which the insured is terminally ill). What they do not realize is that it is actually their fiduciary responsibility to present a life settlement as an option to their clients. An insured may not be aware that he has the option to sell his policy for more money than the cash surrender value. A life settlement can be an extremely viable and lucrative option for an insured who no longer wants to pay the premiums or who no longer needs the policy because estate planning needs may have changed. Rather than surrender or let the policy lapse, both the insured and the advisor can benefit from a life settlement.

SIMON: One common misperception about life settlements is that they have a negative impact on the life insurance industry. In fact, the presence of the secondary market for life insurance should increase sales for insurance companies because of the option it provides to policyholders. By providing a financially superior alternative to nonforfeiture and cash surrender values, the likelihood of clients purchasing life insurance will increase. Bottom line, the availability of a secondary market for life insurance enhances its value in clients' financial and estate plans by providing flexibility and a fair market value for this

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financial asset, similar to any other asset clients own.

Another misperception is that brokers need not be concerned about regulation in states besides their own. The reality is that any professional or firm transacting life settlements needs to be aware of the regulations in all states where it conducts business on behalf of clients. Regardless, all professionals involved in life settlements should be concerned with regulations in all states where they or their clients reside.

SEITEL: A common misperception to those unfamiliar with settlements is that they are ghoulish because the credit analysis is based on life expectancy. Therefore, the investor stands to benefit if the insured dies earlier than expected. There is already much precedent for using this type of credit analysis. For example, this credit analysis is the same that is used by insurance carriers when selling retirement annuities and is the same that is used by mortgage companies when selling reverse mortgages.

It is also important to note that the current investors in this asset class are some of the largest institutions in the world. They invest in life settlements because settlements are noncorrelated assets relative to the typical bond and equity portfolios.

QUESTION #3: WHAT ARE THE MOST POPULAR REASONS PEOPLE SEEK LIFE SETTLEMENTS?

SMITH: Premiums have become more expensive than expected, the original need that fueled the purchase no longer exists, or a product more suitable to their needs and budget has become available.

BALSAM: More often than not, policies being submitted for evaluation as a life settlement stem from coverage that had been purchased years ago and is simply outdated. Some clients own policies that are not as functional, such as policies issued even as recently as five years ago when rates were not guaranteed. Policies tended to be costly or were just not able to provide the expected return on investment. Additionally, the estate needs change as kids grow and purchase their own coverage.

SIMON: The most common reasons policy owners pursue life settlements are that their financial situation, needs, and goals change over time, and/or their existing life insurance contract has not met their needs or performance expectations, often resulting in significantly escalating premiums. Of course, clients only complete settlement transactions if they can receive an amount

much greater than the cash surrender value of the policy. Clients often use the cash obtained from life settlements to fund other financial needs or other products better suited for their current financial planning goals, including investment products such as variable annuities, long term care insurance, stocks, bonds, mutual funds or other products. In other cases, clients might be able to buy a new individual life insurance policy, a survivorship policy or another policy that fits better with the client's changed situation.

SEITEL: Replacement insurance is certainly one reason. Insurance carrier products are constantly changing, and often the insured can settle an existing policy and use the proceeds to purchase another product with the same premiums but higher death benefit or the same death benefit but lower premiums. Another reason involves policies that have lost their usefulness. For example, COLI policies and key-man policies are oftentimes sold after the employee or key man retires.

QUESTION #4: WHAT ARE ANY POTENTIAL PITFALLS ADVISORS SHOULD BE TELLING THEIR CLIENTS ABOUT?

SMITH: There is a potential tax owed on part of their life settlement. Plus, clients' future capacity or ability to take out additional insurance will be impacted.

BALSAM: A straight life settlement is a complete win-win situation. There is never an obligation involved when evaluating a policy on the secondary market. When there is financial gain to be had, it makes sense to all parties to sell the policy and it becomes a complete windfall and profit. However, be aware of programs promising monetary gain for nothing but simply providing insurability as collateral, also known as premium financing. There are several programs on the market that offer up-

front cash, back-end payments and all kinds of financial profit simply for writing up a policy on the insured and selling it after two years once contestability expires. There are some programs that are legitimate and profitable; on the other hand, there are programs that exist that may not be as beneficial, and consumers should always be aware of the fine print before entering a financial agreement as premium finance deal.

SIMON: The advisor needs to make sure his client no longer needs the existing life insurance contract or can qualify for new insurance if the client still needs coverage, and that the client plans on purchasing a more appropriate policy with the proceeds from the settlement. The advisor also needs to make certain that his client doesn't settle a policy that is still needed or that the client is not uninsurable. If the life insurance policy is still needed, the funds that would come from the future benefit cannot be reclaimed once the policy has been settled.

QUESTION #5: WHY SHOULD SENIOR ADVISORS CARE ABOUT THE LIFE SETTLEMENT MARKET?

SMITH: They have a fiduciary responsibility to tell clients that an alternative exists to the surrender value of their policy. A majority of settlement proceeds are reinvested in other products advisors may offer.

BALSAM: Senior advisors are responsible to present to their clients all the fiduciary options as well as all aspects of retirement planning. A life settlement is a very lucrative option to present to senior clients who may not be aware of this profitable opportunity. Seniors depend on their financial advisors to present the best possible planning options, and they may only know about the options to either surrender or lapse a policy.

Advisors also can benefit tremendously from a life settlement, as they can

earn commission on the sale of the existing policy as a life settlement. Additionally, they often replace the existing policy with an updated, better performing policy that better suits the needs of the insured, in which case the advisor will earn commission on the sale of the new policy, as well. If the life settlement was on the sale of a term policy, then the agent will also earn compensation on the conversion to UL for the life settlement. Everyone benefits.

SIMON: Smart senior advisors know that as the years go by, their clients' lives and financial needs can change. Additionally, estate taxation changes over time and currently is an active topic with U.S. legislators. In fact, as many clients approach their 70s and beyond, life insurance products may make up a disproportionate amount of their wealth. Until life settlements, most individuals in this situation had no choice but to continue paying premiums, let their coverage lapse or surrender policies for a minimal cash value. By providing a life settlement alternative to customers with unneeded life insurance, senior advisors can turn a policy lapse event into a value-added service to customers by providing funds to purchase more appropriate life insurance, fund other key programs already mentioned, and make sure their wealth transfer arrangements are in line with their clients' current goals and wishes.

SEITEL: As part of any responsible wealth management or retirement planning program, the senior advisor has a fiduciary responsibility to make his client aware of the life settlement option. A life settlement represents an alternative asset management tool that can provide clients access to cash that can be used for a variety of reasons. If a policy lapses while the client was unaware of this potential solution and, as a result, receives far less cash than if he had settled, the senior advisor has failed in his fiduciary responsibility. 📌