



LIFESSETTLEMENT

ADVISORS



| *Serving Senior Clients* |

TURN HIGH LIFE INSURANCE PREMIUMS
INTO FINANCIAL LIQUIDITY



Turn High Life Insurance Premiums into Financial Liquidity

If your clients have a permanent or term life insurance policy, they may not know that they are actually holding onto an incredibly valuable asset. Life insurance policies have long been a core part of the American consumer landscape. They provide benefits to loved ones who might experience hardship upon the early or untimely death of the insured. However, as we grow older, the need for a life insurance policy diminishes and the sale of all or a portion of a life insurance policy is another option. Often, seniors are still paying high premiums despite the lack of necessity. In many cases, these benefits go unclaimed when individuals pass. According to the USA Today, this number comes in at nearly 7.5 billion dollars.¹

As a financial advisor, estate planning attorney, insurance broker, money manager, or other financial services professional, you may already be familiar with the concept of “life settlements.” In your work with senior clients, you may even have come across multiple scenarios in which a life settlement could be a great choice for your clients.

In this guide, we’ll offer a step-by-step walkthrough of the life settlement market:

- ▶ How we qualify candidates
- ▶ What to look for in a life settlements partner
- ▶ How the application process works
- ▶ What happens when it’s all said and done

With this guide in hand, you’ll be confident to add life settlements as one more service offering—and revenue stream—to help your senior clients achieve their financial goals.

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¹ <https://www.usatoday.com/story/money/personalfinance/2016/06/11/unclaimed-life-insurance-money-payout/85718732/>



Life Settlements: A Primer

The concept of a life settlement has been in existence since 1911 and can be found in the Grigsby v. Russell decision from the U.S. Supreme Court.² This court case held that a life insurance policy is actually the physical property of the policy owner and can thus be bought and sold in the same way a home or vehicle can. The purchaser simply must pay the premiums and then will receive the full death benefit of the insured upon their passing. This is the definition of a life settlement.

Individuals tend to assume they have limited options when it comes to their life insurance policy. Many simply stop making payments and let their policy lapse and lose out on what may have been years of investment, while others surrender their policy back to the insurance carrier for much less than the amount they've paid into the policy. An article published by Darwin Bayston suggests that more than 1 million policies lapse or are surrendered every year; this is a combined death benefit value of 112 billion dollars.³ Instead of suffering major losses on their life insurance policies, offering your clients the option to sell all or a portion of their policy not only helps them get out of those high premiums, but it provides them more liquidity in retirement.

Presenting your clients with information about life settlements is the first step in helping them access this fantastic benefit. Resources like this are an excellent educational material to pass on to clients. Although the first question is often, "What is a life settlement?" what follows is the wonder over who might qualify. While this process might seem obscure right now, the basics are easy.



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RESOURCES

For helpful tools you can use and share, visit: <http://LSA-LLC.com/advisor-resources>

² <https://supreme.justia.com/cases/federal/us/222/149/case.html>

³ <http://www.lisa.org/life-policy-owners/consumer-blog/blog/2015/02/25/lapsed-life-insurance-policies-an-astounding-number>



Qualifying Candidates

Finding out if your client qualifies for a life settlement is a relatively simple process. There are a couple factors that a life settlement company will consider before the transaction can take place. Here are the signs that your client might be a candidate for a life settlement, and some insight into what life settlement companies look for when it comes to the policy itself.



AGE AND STATUS OF THE INSURED

In order to qualify for a life settlement, the ideal candidate is a male or female in their mid 70's or older that has had a change in health since the policy was issued. Most often, life expectancy must be under 13 years for a life insurance policy to be sold in the life settlement market.

This is very different than a viatical settlement. In this case, life expectancy will be 2 years or less. Although viatical settlements aren't incredibly common today, they still take place for individuals who need immediate access to cash. They rose in popularity during the AIDS crisis of the mid-eighties when people diagnosed with the disease found themselves able to convert their life insurance policies in order to cover medical expenses or end of life care.



TERM VS PERMANENT

For **term life insurance**, you pay premiums for a stated term, 10- 15- 20-years depending on how long you need coverage. Premiums are guaranteed to stay the same for your chosen period of years, and if you pass away during the stated period, the insurance company pays the death benefit to your named beneficiaries. At the end of the term, your life insurance becomes extremely expensive unless you have a convertibility option to a permanent policy. A term policy must be convertible to be sold in a life settlement transaction.

Permanent life insurance offers a death benefit and cash value. The death benefit is money that's paid to your beneficiaries when you pass away. Cash surrender value is a separate savings component that you may be able to access while you're still alive.⁴ Most permanent life insurance lasts from the time you buy a policy to the time you pass away, as long as you pay the required premiums. The most common policy sold via a life settlement is a Universal Life policy, another common policy is term life insurance that has the convertibility option. This policy is closely followed by joint survivorship and whole life policies.



PREMIUMS AND DEATH BENEFIT

The last two important factors that life settlement companies will consider during the application process are the cost of your clients' premiums and the total death benefit once the insured passes. Premiums come into play because the life settlement transaction entails the new owner of the policy continuing to pay the premiums for the duration of the insured lifespan. Lower premiums are therefore preferable. Finally, in order to qualify for a life settlement, a client's death benefit must total at least \$100,000 dollars. Although there is no maximum death benefit amount.

⁴ <http://www.nytimes.com/2010/03/04/business/retirementspecial/04LIFE.html>



Finding a Life Settlement Partner

Establishing a partnership with a life settlement company is a great idea, even if your clients haven't reached this age bracket yet.⁵ Facing retirement can be stressful because a comfortable retirement requires a lot of preparation. At this time, any drain on their finances can make a huge difference. As this includes paying the high premiums of life insurance, many retirees begin to question their need for life insurance and eventually realize that the need for this coverage no longer exists. The kids have graduated from college and have good jobs; the home is paid for, or mom and dad have retired or sold the family business. Unfortunately, even when clients have prepared, all it takes is one solid financial shock to disrupt mobility. A financial shock can take many forms. Typically, unexpected medical bills, a downturn in the client's retirement accounts, or unforeseen home repairs, the essential part is that shocks are unexpected costs your clients incur.

These are moments when having additional resources through an established partnership with a life settlement company can really benefit your business. Although certain advisors are forbidden from participating in life settlements by either their broker-dealer or their insurance company, that doesn't mean they can't pass on the relevant information to help their clients meet financial needs.⁶

In the case of these aforementioned advisors, often this group might have clients that no longer want their coverage because it's become too expensive to maintain, or the insured is concerned about outliving their financial resources. These advisors simply don't know that they are allowed to suggest a life settlement and in turn receive compensation through the sale of the insured's life insurance policy.

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⁵ <https://www.forbes.com/sites/jamiehopkins/2014/08/28/not-enough-people-have-financial-advisers-and-new-research-shows-they-should/#645d403d52e5>

⁶ <http://www.thinkadvisor.com/2014/09/19/why-agents-cant-mention-life-settlements>



What to Look for in Your Life Settlement Partner

Seeking out a good life settlement company is easily done when you're following a basic provision: you need someone who understands the demographic. Seniors are not familiar with the life settlement market and will have many questions.⁷ This means that they'll need a lot of transparency. They'll want to clearly understand the ins and outs of this transaction. If your prospective life settlement partner is comfortable providing educational resources or maintains a blog, this is a good sign that they'll be able to quickly and confidently answer any of your clients' questions. The AARP recommends that when working with senior clients, advisors take time to ask insightful, probing questions about their finances and needs in order to help them feel valued and understood throughout the process.⁸ A well-versed life settlement company will recognize this and work as hard as you do to keep your client informed.

Although finding the right life settlement partner means finding someone who keeps your clients feeling comfortable, you should also seek out someone who helps you to feel comfortable. A life settlement company should be giving you the same transparency you give your clients. This means both when talking numbers and talking qualifications. The fact of the matter is, when a trusted advisor helps facilitate a life settlement, they can receive a commission. Your life settlement partner should be explicit about what revenue both you and your client can expect to generate during this process.

Ultimately, a life settlement is not for everyone. But when the situation arises, finding the right life settlement partner, means the trusted advisor demonstrates he or she is someone who listens, builds trust, and gets results for their clients.



LISTENS:

someone who demonstrates they understand the client's individual needs, wants, and goals



EDUCATES:

someone who curates information in an understandable way so that clients can make informed decisions.



BUILDS TRUST:

someone whose work creates confidence by working in the best interest of all involved parties.



GETS RESULTS:

someone who continually provides value by getting meaningful results.

Partnering with a life settlement company doesn't mean extra work, especially if you follow the above tenants. It's simple. All an advisor has to do is share the potential of life settlements with their clients and find out if they qualify by contacting the life settlement company. Of course, there's always the option to suggest a client call the life settlement company directly.

⁷ <https://www.usatoday.com/story/money/columnist/powell/2014/02/22/financial-adviser-retirement/5555275/>

⁸ https://www.aarp.org/content/dam/aarp/money/how_to_guides/2011-08/Financial%20Professional%20Guide%20Working%20Older.pdf



The Application & Transaction Process

In order to qualify for a life settlement, your client will have to go through an application process. During this step, your client will fill out a form verifying personal, medical, and lifestyle history. The questionnaire will also include information about their policy. In addition, the seller will need to provide a copy of the original policy, most recent annual statement, and a current policy illustration showing minimum premium to maturity.

THE TRANSACTION

After the questionnaire and all requested documentation have been received and reviewed, the settlement process will begin. If an offer is made, your client is then free to accept or decline. Going through the life settlement application process doesn't legally bind your client to sell their policy. However, should your client accept an offer, funds will be placed in an escrow account and a closing packet will be sent to the seller for completion and signature. Once the closing packet is returned to the buyer and all documents are in good order, the changes of ownership and beneficiary will be submitted to the insurance carrier. Upon the written verification from the insurance company on the change of ownership and the beneficiary, an escrow agent will then release the funds to your client.

The value of life settlements is often misunderstood. Not only do they help elderly clients find more financial freedom in retirement, they provide new revenue streams for advisors of all types. Armed with this information, you'll be able to help clients uncover an asset where they may have previously only seen the burden of high monthly premiums. An unwanted life insurance policy is the equivalent of that vintage Jag your uncle bought in his early twenties that simply sits in his garage, pristine, untouched, and incredibly valuable.

Consider reaching out to us at Life Settlement Advisors to help your clients get the most out of their investments

We'll walk you through the process, give you plenty of resources for your clients, and we'll ensure you've got everything you need to branch out and better serve your senior clients.

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APPLICATION AND TRANSACTION PROCESS TIMELINE



With the power of life settlements you can:

- ▶ Fulfill your fiduciary obligation in helping a client dispose of an asset they no longer need and/or want.
- ▶ Build trust and confidence with clients by turning a non-liquid asset into cash.
- ▶ Utilize the cash clients receive to invest or purchase additional products.
- ▶ Continue to receive renewal commission on the policy which was sold, provided you were the original writing agent.
- ▶ Receive a commission check for the sale of the policy.
- ▶ Receive a commission on a conversion from term to whole life insurance.
- ▶ Receive referrals from client's peers who might want to sell their policy.



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