

LIFE SETTLEMENTS

*A life settlement is the legal sale of an existing life insurance policy for more than its cash surrender value, but less than its net death benefit, to a third-party investor.



WHY EXPLORE THE LIFE SETTLEMENT OPTION?

On July 31st, 2023, FINRA (<https://www.finra.org/investors/insights/what-you-should-know-about-life-settlements>) released a circular (guidance) about the need for licensed professionals to check with your state insurance commissioner to see whether the life settlement company or settlement broker you're dealing with is properly licensed—and whether either has a record of complaints. If you're working with an investment professional, use FINRA BrokerCheck to learn about their professional background, registration status and disciplinary history. Essentially, telling you that exploring a life settlements is a GOOD idea!

According to the U.S. Government Accountability Office or the GAO Report, seniors selling their policies in a life settlement transaction received a significant multiple as much money as they would have had they surrendered the policy to the insurance company.

Last year (2022), the Life Insurance Settlement Association (LISA) conducted an annual market data collection survey and discovered that seniors received precisely 5.2 times more (on average) than the cash surrender value offered by the insurance company. In 2021, the average was 7.8 times more.

Simply stated, that's an average of 6.5 times in just the last two years.

WHO MAY QUALIFY?

Anyone over the age of 65 years (younger with health impairments) who has a life insurance policy and they may have had a health change since the original policy was issued.

- Health and/or Financial Reasons
- Individuals under the age of 65 may qualify if they have significant health issues or a current life-threatening illness.



WHY CONSIDER THE OPTION? CHANGING CIRCUMSTANCES

- Under-Performing Policies
- Estate Size Reduction
- Family Issues
- Divorce or Bankruptcy
- Deterioration of Health
- Retirement
- Sale of Business
- Death of Spouse
- Estate Tax Reform
- Nearing the End of a Term (convertible term policies)



WHAT TYPES OF LIFE POLICIES ARE INVOLVED?

- Universal
- Whole Life
- Term
- GUL
- Variable
- Joint
- Group
- Key Man

Life
Insurance
Policy



TYPES OF LIFE SETTLEMENT PROSPECTS TO CONSIDER

- Those who no longer need insurance
- Those who have too much insurance or the wrong insurance.
- Those who need capital to fund an alternative investment
- Those who need coverage but may not be able to afford the premium payments
- Those who are not interested in converting a term policy that is nearing the end of the term period.



PARAMETERS FOR A LIFE SETTLEMENT OFFER

How much will the seller receive for a policy?

There are many factors that determine offer amounts:

- Age of Insured
- Premiums – cost of insurance
- Client's Health
- Type of Policy
- Insurance Company Rating
- Policy Size

GENERAL RULE: *Age, health and future premiums are the primary factors that determine the amount of each offer. Competitive bidding from all licensed buyers assures that your client will receive the highest offer available.*



WHO ARE THE BUYERS?

The simple answer is institutional investors which include Hedge Funds, VC, Pension Plans, Investment Banks, Accredited Investors, etc.

Institutional investors are buying thousands of policies and creating large portfolios. This is an attractive asset class for investors because it provides excellent returns, security of principal, and is considered non-correlated when compared to the volatility of the stock market as well as other world events.



WHAT OPTIONS EXIST FOR LIFE INSURANCE POLICIES THAT ARE NO LONGER NEEDED OR NO LONGER AFFORDABLE (see FINRA Guidance):

1. Maintain policy by obtaining a loan
2. Apply for an Accelerated Death Benefit (ADB)
3. Assign to a 3rd Party - Gift or 501(c)3
4. Reduce the death benefit to make premiums more affordable
5. Let the policy lapse or surrender it for the cash surrender value
6. LASTLY, SELL TO A THIRD-PARTY INVESTOR

WHY THE OPTION FOR EXITING A POLICY MATTERS:

I personally saw this haunting statistic while attending a conference and I never forgot it!

Wells Fargo once ran a survey and concluded that **22%** of the middle-class Americans disclosed that they would rather "die early" than not have enough money to live comfortably in retirement.

WHAT CAN YOU DO? WHAT DO WE DO? HOW CAN WE WORK TOGETHER?

There are roughly 38 million life insurance policies owned by American seniors with a total death benefit of more than 3 trillion.

As it stands today, nearly 88% of universal life insurance policies and almost 85% of term life insurance policies never actually result in a death claim.

Every year in the USA, people over the age of 65, lapse or surrender \$112 billion in death benefit that maybe could have qualified for a life settlement. By comparison, the life settlement marketplace purchases @\$5 billion per year.



UNDERSTANDING THE PURPOSE AND VALUE OF LIFE INSURANCE

There are many reasons why people buy life insurance:

- Diverse requirements
- Fund college
- To protect a business
- Income replacement
- Loan Security
- To provide peace of mind and to plan for the future

What happens when things change and the original reason the life insurance was purchased no longer applies or exists?

How about getting a FREE NON-BINDING APPRAISAL?

Fact: The number of lapsed policies by Americans over the age of 65 is staggering: more than 250,000 policies with a combined face of \$57 billion are lapsed or surrendered back to the life insurance companies each year.

The average face value of those policies is approximately \$225,000. Keep in mind, those figures only include universal and variable life policies. When the term and whole life policies are added to the equation, the total jumps to \$112 billion.



UNDERSTANDING THE IMPORTANCE OF THE LIFE SETTLEMENT OPTION

A study conducted by the Insurance Studies Institute concluded that of the 90% of the seniors they surveyed who had lapsed a policy, they would have considered a life settlement if only they would have known it even existed.

A large number of financial professionals are themselves unaware that the life settlement option even exists. One study found that 49% of financial professionals lack knowledge about life settlements and as result, almost never recommend the option. **What is worse, the study found that 23% said that they were actually prohibited from engaging in a life settlement transaction by their insurance company or broker-dealer.**



Why Suggesting Life Settlements is the Right Thing to Do: **THE LEGAL FOUNDATION**

- In 1911, The U.S. Supreme Court and the Honorable Justice Oliver Wendell Holmes wrote in his opinion,

"So far as reasonable safety permits, it is desirable to give life policies the ordinary characteristics of property. To deny the right to sell except to persons having such an interest is to diminish appreciably the value of the contract in the owner's hands."

- Conclusion, the life insurance policy is private property that can be assigned or sold at the will of the owner.
- Later, in 1996, with the passage of the Health Insurance Portability and Accountability Act (HIPAA), it allowed the owner and/or beneficiary to transfer the ownership and/or beneficial interest in that policy to a third party.

Fiduciary Duty Examples – Scenario 1

“As you are about to retire you have a one million term life insurance policy that is due to have a dramatic increase in premiums, unless you convert your policy to a permanent policy. You conclude that you no longer need the insurance coverage. You explain your predicament and seek guidance from your life insurance agent who is now your “financial services advisor?” Upon the express directive of his insurance carrier your financial advisor intentionally fails to tell you about the life settlement option. At age 74, your policy could be worth up to \$200,000. Without this critical information, you simply allow your policy to lapse.”



“Would you feel that your insurance agent had breached an obligation to you to disclose certain material benefits associated with your policy, which resulted in a \$200,000 loss to you?”

Fiduciary Duty Examples – Scenario 2

“Your business has a \$5 million policy on your life which was required by your bank. The business is being sold, so the life insurance policy is no longer required. You also have two million in personal coverage. In reviewing the options, your agent suggests that you can surrender the policy for the \$249,000 of cash value or take a reduced paid up policy with a \$530,000 death benefit. Regrettably, the insurance carrier has strictly prohibited your agent from advising you of the life settlement option. You reached out directly to a life settlement broker and it was determined that you could sell your policy to a life settlement provider for \$1.2 million in cash. Without this information, you would have surrendered the policy for the \$249,000. You would have lost approximately one million due to the lack of disclosure.”



“Would you feel that this agent and carrier had breached his or her ethical and legal duties owed to you?”

LIFE SETTLEMENT TIMELINE

Once we have received completed LIS application:

- 4 weeks for LIS to collect medical records, life expectancy reports & in force illustrations.
- Once above information has been obtained, case is sent to all licensed Providers in the industry for Appraisal.
- 1-2 weeks to obtain offer/declines from Providers.
- Highest available offer is presented to you for review

OFFER ACCEPTANCE

- Contracts are sent to you by LIS or the provider company (buyer).
- Once signed contracts are returned, it typically takes 1-2 weeks for review and clean up. During this time, all documents, applications, policy and original policy applications are checked for accuracy.
- Escrow is opened and change of owner/beneficiary forms are sent to and recorded by the insurance carrier. 10-14 day turn around at the carrier.
- Upon confirmation of change of ownership, client is funded within 48 hours.
- Client has a right rescission.
- Available compensation is paid to you after rescission period has ended.



MULTIPLE COMMISSIONS FROM ONE STRATEGY

- Referral fee from the life settlement transaction
- Trail commission on policy for agent of record
- Investment or annuity commission from the capital created from the life settlement transaction
- Commission on the conversion of term policies sold in the secondary market
- Commission for referring other agents or agencies to Life Insurance Settlements, Inc.



CASE STUDIES

Case #1: Male, age 59, with pancreatic cancer

- This individual had a \$500,000 term policy that was at the end of the level premium paying period and the conversion period. Unfortunately, due to the extra expenses this devastating illness caused, he could not afford to convert the policy; and he needed additional cash.
- His agent suggested that, before lapsing the policy, he investigate the life settlement option. His life expectancy had a range from 24 to 72 months. The client received a net offer of \$320,000, a life-changing amount for a man and his family in this tragic circumstance.



CASE STUDIES

Case #2: Male, age 75, in standard health

- The insured had a \$300,000 term policy that was also at that end of the level premium paying period and conversion period. When he called his agent to drop the policy because he no longer needed the coverage, the agent said, “Before you do, let’s see if there could be value in the secondary market.” We had recently done another case with this agent and so he was aware of the possibilities.
- When he called, he said, “I know this is a longshot, but do you think there could be any value in this policy?” The insured’s life expectancy was 180 months. After an extensive search, we obtained \$5,000 for the client. Both he and his wife were thrilled. To them, this was “found” money.



CASE STUDIES

Case #3: Male, age 77, and Female, age 76

\$2,450,000 survivorship UL policy

- Due to a reduced need for insurance to pay estate taxes and a need for the cash that was going toward premium payments, the clients were going to surrender their policy for \$354,153. Their agent suggested trying a life settlement, but wasn't optimistic because he believed there wasn't much of a market for survivorship policies.
- **The hunch paid off, we obtained an offer of \$555,670**
- That's more than \$200,000 than the cash surrender value from the life insurance carrier. Three companies were competing against each other for this policy. Buyers today have a greater understanding of survivorship mortality, so survivorship policies are seeing greater value in the secondary market.



STEPS TO SUCCESS IN LIFE SETTLEMENTS

You have many choices when it comes to discovering life settlement opportunities:

- 1.) Offer a policy audit or review for all your clients who are 65 years or older.
- 2.) Advertise Life Settlements through a newsletter or newspaper in your area. We can provide sample ideas for you.
- 3.) Pay attention to lapse notices or individuals whose policies fall into grace.
- 4.) Keep track of Term policies nearing conversion deadline.
- 5.) Explain to clients they may be able to keep some coverage and sell the rest, known as a “Retained Death Benefit option.”
- 6.) If your client no longer wants, needs or can’t afford premiums then offer a FREE, NON-BINDING appraisal of their policy.



ASSURANCE OF THE LIFE SETTLEMENT OPTION

- Life settlements are both **highly-regulated**. Forty-three (43) states currently have comprehensive life settlement laws covering over 93 percent of the US population.
- The life settlements industry (as a whole) has zero consumer complaint involving life settlements has been reported to state insurance regulators nationally over the past five years. *according to LISA
- Policy owners who sell their policies receive a lump sum payment that is **four to eight times more** than if they lapsed or surrendered their policy, according to government and university studies.
- The money that seniors receive from a life settlement can help them invest in their retirement, maintain their standard of living, and pay for health care or long-term care costs.



LIFE INSURANCE SETTLEMENTS, INC. REPRESENTS YOU and YOUR CLIENTS!

- Life Insurance Settlements, Inc. and their TermLifeSet program have been in business since 2002. The owners of LIS, Inc. have been in the life settlement marketplace since 1993. They have transacted more than 25,000 life settlements and bring that experience to market more than any other broker. The owners have been in the secondary market since 1993. Nobody brings more experience.
- Our fiduciary duty is to secure the highest market offer possible to the seller and owner of the policy. We offer a free non-binding appraisal for all of our clients.
- We are a professional life settlement broker that negotiates the highest offer through a vast network of potential life settlement buyers. Our experienced team creates competition amongst these buyers to ensure that our clients receive the highest offer possible for their valuable asset.
- Life Insurance Settlements Inc. partners with life agents, financial planners and estate planners all across the country. Our marketing team provides the support and education that is needed for you to maximize every life settlement opportunity.
- Our staff of professional brokers will show you how to recognize potential settlements through your existing clients. We will also provide you with the tools to market for new settlements nationwide.
- Contact Information: **CELL PHONES** Rob Haynie – 954.599.4433, Gibson Nutt – 954.401.0605, Jack Carlton – 954.288.2586, and Oleg Eydelman – 954.540.0001

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