

Expanding Market Opportunities through Life Settlements

By Jim Pugliese

One of the many challenges for financial advisors today is to present clients with viable alternatives that are value-added, and it is appropriate to look beyond traditional investments for new product opportunities. One area that is gaining considerable visibility and acceptance in the financial planning community is a life settlement. Life settlements offer you another tool to help your clients properly manage their wealth.

A life settlement is the sale of a life insurance policy in the secondary insurance market for more than cash surrender value. The clients are generally seniors over age 70, with Whole Life, Universal Life or Convertible Term policies of \$250,000 or greater. Institutional funds backed by capital from names such as Morgan Stanley, Deutsche Bank, Berkshire Hathaway and Gen Re buy policies based on age and health of the insured, type of policy, premium ratio and carrier rating. More than \$15 billion of face amount will be settled in 2007 alone.

Steve Mathieu, a Legacy registered representative from Manchester, New Hampshire, says "Life settlements are a viable financial planning tool. As trusted advisors whose clients rely on us for financial guidance, we should explore and present all appropriate alternatives to a given financial issue."

When your senior clients have a life insurance policy that they no longer want or need, you may consider it your duty to inform your client that they may have a viable alternative to 'lapse or surrender'. Often the sale of the policy can pay them up to four times cash surrender value by selling their policy in the secondary life insurance market.

Opportunities for life settlements abound. Here are some examples of when a life settlement is appropriate:

1. **Lapse & Surrender:** As an alternative to the lapse and surrender of a policy
2. **1035 Exchange:** Many times a life settlement will yield more benefit to the client than the tax savings from a 1035 exchange
3. **More Appropriate Coverage:** You may want to replace underperforming policies with more appropriate coverage for you client, such as joint survivorship or a guaranteed, paid-up policy.
4. **Key Man Insurance:** A life settlement may be appropriate when Key Man Insurance is no longer needed.
5. **Convertible Term Insurance:** A life settlement is an excellent choice for clients with Convertible Term policies, which by definition have no cash surrender value. First the policy is converted to a Whole Life or Universal product, and then the life settlement is transacted.

In a typical example of a life settlement, a 74 year-old female client with a \$500,000 Universal Life policy could reasonably expect to receive 15% to 25% of the face amount in a lump-sum cash payment from the sale of the policy in the secondary market,

depending on health and other market considerations. Typically the agent of record and the life settlement broker will share a fee that ranges from 3% to 6% of the face amount. Be sure to discuss fees with your settlement broker at the beginning of the transaction, and choose only life settlement brokers that offer full disclosure of fees.

Taxes on life settlements are fairly straightforward: no tax on the basis (premium paid); ordinary income to the extent that the cash surrender value exceeds the basis; long-term capital gains on the balance.

In order to make sure you are receiving the greatest market value possible on your client's policy, you should work exclusively with one expert life settlement brokerage that knows the market, the buyers, and provides E&O coverage for you. Also, be sure to understand the compensation arrangement, since brokers vary considerably in how they are compensated and the degree to which they are transparent about their process, bids and fees. States vary considerably as to guidance on compensation and disclosure. Don't wait until the end of the process to ask your broker this question.

"Don't be skeptical about offering the life settlement alternative to you senior clients", say Mathieu. "This is a real financial tool that can unlock enormous value for your clients."

To find our more information about life settlements, you may go online and visit the Life Settlement Association of America website, www.lisassociation.org

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