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# The Secondary Market

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## Eight Exciting Reasons to Offer Life Settlements

The life settlement industry has seen its share of turmoil in the past few years but growing pains are part of any new evolving industry. Here are eight reasons why the future of the life settlement industry looks bright:

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### 1. Growing consumer awareness of life settlements

Life settlements have now been around for about 15 years, and that means more and more consumers and financial advisors have heard of them. When senior insureds no longer need, want or can afford their insurance, it's in their best interest to explore the benefits of a life settlement as an alternative to the lapse or surrender of a policy. Producers are now under increasing pressure to offer their clients the option of a life settlement as a way to maximize the value of their policies.

The life settlement industry has matured considerably since its beginnings. As life settlements increasingly become part of the mainstream, advisors who want to do the right thing for their clients should start learning about and getting involved with life settlements.

### 2. Increased recognition from legislators and regulators

The National Conference of Insurance Legislators (NCOIL) has adopted a model disclosure law that requires insurers to notify senior insureds about to lapse or surrender a policy that alternatives like life settlements exist. Kentucky, Maine, New Hampshire, Oregon, Washington and Wisconsin have already adopted similar laws, and others are sure to follow.

The newest trend on the legislative horizon is Medicaid life settlements. Texas has already passed this law and a growing number of states are also considering similar legislation, including New York, New Jersey, California, Florida, Kentucky, Maine and Louisiana. The legislation allows life settlement proceeds to be used to offset medical expenses provided under Medicaid. As an incentive, a portion of the proceeds would be reserved for their beneficiaries. Additionally, any proceeds that might remain after offsetting medical expenses would also go to the insureds' beneficiaries. Medicaid life settlements benefit both the government that has to foot the bill for Medicaid and the beneficiaries of the insured.

### 3. No more "Wild, Wild West"

42 of the 50 states now regulate life settlements, covering more than 90% of the United States' population. This is good for both investors and consumers, who are now able to transact business in a more orderly, regulated marketplace. These laws provide rules and conduct standards for the industry and add significant protection for the participants in a life settlement transaction.

### 4. The return of investment capital

The financial crisis that began in 2008 landed a one-two punch on the life settlement industry.

First, investment capital dried up globally. For life settlements, this meant almost no money for new investment, and it severely hampered lending for premium payments to existing portfolios.

Second, life settlements are often touted as investments that are not correlated to the stock and bond markets and thus provide diversification to investors. But during the financial crisis, investors became concerned about the solvency and claims-paying ability of the insurers that issued the policies they were buying.

Having come through the crisis, investors have more confidence in life settlements as an alternative investment because it is primarily a mortality play, with little correlation to stocks and bonds. New investment sources, like pension plans, are entering the market. The long-term nature of life settlements and the very favorable returns compared to traditional investments are attracting the attention of pension fund managers. And traditional investing sources, such as banks and hedge funds, are getting back into the game as the improving economy begins to generate more capital for investment again.

### 5. The supply of policies is less than the capital that buyers have to spend

The capital has returned to the life settlement market and the supply of policies is less than the capital that buyers have to spend. Good policies are receiving multiple competitive offers once again. Also, this trend will bring the ROI on policies purchased down to the mid-teens, which will improve value to the policyowner.

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## 6. More consistent life expectancy estimates

Another factor that shook up the industry in 2008 was the sudden change in mortality tables used by two of the major life expectancy companies, 21st and AVS, which increased life expectancies by some 25-30%. Although the immediate fallout from these changes was the stifling of business, life expectancies that more closely resemble insurance company underwriting can only add to investor confidence over the long term. Additionally, life expectancy companies, now having had many more years of experience in underwriting life expectancies for life settlements, have much more data upon which to base their estimates. The diverse life expectancies are tending to be more consistent and we are no longer seeing a broad range in LEs.

## 7. The demise of stranger-originated life insurance (STOLI)

STOLI was marketed to older insureds and frequently touted as "free insurance" with an upside potential. The general format required the insured (or a trust created by the insured) to own the policy for two years to get beyond contestability provisions and the "wet ink" laws of a number of states, which prohibited the sale of policies within two years of issue except under certain hardship provisions. STOLI became so popular that many producers and insurers confused it with legitimate life settlements, which are transacted on properly originated policies with valid insurable interest at issue.

The beginning of the end for STOLI came in December 2005 when the New York State Insurance Department released a General Counsel Opinion that STOLI-type arrangements violated insurable interest laws. This ruling had significant impact on the STOLI industry as state legislatures began passing anti-STOLI legislation that would make it easier to enforce insurable interest laws. Insurers implemented underwriting procedures intended to detect and prevent STOLI transactions.

With STOLI largely history, today's life settlement industry is once again doing what it was originally intended to do-- provide policy owners with an alternative to the lapse or surrender of a policy that maximizes the value of their contract.

## 8. The American Taxpayer Relief Act of 2012

Perhaps the most significant recent development to influence the life settlement industry is the American Taxpayer Relief Act of 2012 (ATRA), which increased the estate tax exclusion to $5.25 million for individuals and, with portability, $10.5 million for married couples. According to Urban-Brookings Tax Policy Center, this change in the estate tax law means that only a very small percentage of Americans, 0.14%, will be subject to federal estate taxes. Additionally, those who are subject to estate tax will see their average effective rate drop to only 16.6%, which is well below the estate tax rate of 40 percent set by ATRA. This means that even the small number of estates subject to the federal estate tax will see a significant reduction in their estate tax liability.

For many years, life insurance has been heavily marketed to affluent seniors as a way to offset the burden of federal estate taxes. With that burden declining significantly or disappearing entirely, many of these policies may now be redundant. This will inevitably cause a dramatic upswing in the number of policies that are lapsed or surrendered because they are no longer needed, which should mean a substantial increase in the number of seniors who could benefit from a life settlement.

*Since 2006, Veris Settlement Partners has helped policyowners receive over $50 million more than if they surrendered their policies back to the insurance carrier. Veris Directors Steve Shorrock and Russel Dorsett served as CEOs of highly-rated insurance carriers plus Mr. Dorsett served as President of LISA, the Life Insurance Settlement Association. At Veris, our knowledge of the life insurance and life settlement market differentiates us from other intermediaries and makes us an indispensable partner from start to close. For more information or to get pricing on your policies with our advanced software, please contact Veris at 631-239-6655.*