

# How to Order Illustrations for Life Settlements



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**A** clear, in-force illustration showing the level Death Benefit at minimum level premiums to solve for zero Cash Surrender Value at maturity is needed for every life settlement. All pages of the illustration are required.

For **term conversions**, run illustrations on a non-guaranteed basis with the least expensive Universal Life product available. Convertible term and **universal life** are the most preferred policies of funders.

Regarding Convertible Term, life settlements can potentially provide a large cash asset for the client as an alternative to lapsing the term policy for no value. There are also options for policies that are beyond the conversion period so long as the policy is still within the level premium period.

On **variable policies**, run illustrations at the fixed interest rate. Many carriers automatically run variable illustrations at the hypothetical rate. Stress to them that illustrations at the fixed rate, not the hypothetical rate, are needed.

Variable policies can be challenging to settle as only a small group of funders price these policies due to the complexity of the product. Also, life settlements on variable policies must run through a Broker/Dealer.

For **indexed policies**, run illustrations at the fixed interest rate as well.

For **whole life policies**, run illustrations by using the dividends to offset

the premiums. Whole life is challenging in the secondary market as well since the funder cannot simply take money out of the policy except through a loan, while a UL policy allows for more ready access. And whole life typically has higher premiums and higher cash value, both detrimental to settling the policy.

If available, an illustration which provides COIs is very helpful, especially for insureds with shorter life expectancies (L/Es).

As noted, an illustration to maturity is required for each case. Your broker might also be requesting to run another illustration to a certain age or for a certain number of years as the case progresses to maximize the value of the policy in the secondary market.

In situations with loans, we often want to look at illustrations that both pay off and retain the loan. For policies with a high Cash Surrender Value, illustrations may be required for withdrawals up to basis to maximize the settlement value.

Life settlements continue to show significant growth because of an aging population and increased longevity. Policy Selection, manager of the Assured Fund life settlement investment product, recently predicted that the life settlement market in the United States will grow to \$160 billion in 2016. This is dramatic -- up from \$10-20 billion that *The Journal of Structured Finance (Life Settlements: A Secret No More)* wrote was processed in 2005.

Being the former President/CEO of a life insurance company, I'm especially pleased that LISA, the Life Insurance Settlement Association, reported in their White Paper of August 22, 2006, that nearly half of all life settlement transactions result in the purchase of new insurance policies. More efficient insurance can replace older, costlier policies. Also, funding the new policy with the life settlement proceeds can often reduce the annual outlay versus the existing policy.

Especially in these challenging times, life settlements remain a wonderful option for seniors whose policies are no longer needed, wanted or affordable, instead of simply lapsing or surrendering. Life settlements can be a wonderful exit strategy and provide financial advisors the opportunity to reconnect with clients and sell new services. Advisors who are not presenting this option to their clients risk losing them to other advisors offering life settlements. It is clear, you have the fiduciary responsibility to discuss life settlements within your clients' financial plan. **FA**

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