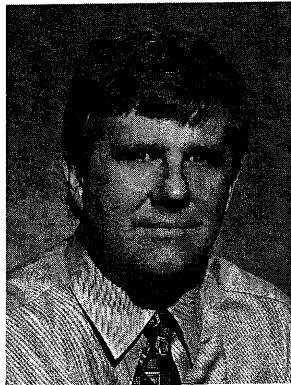


LIFE Settlements

Having spent my entire career in the life insurance industry, and serving as President/CEO of Bankers Life Insurance Company of New York from 1990 to 2003, I'm very aware of the importance of life insurance to families and businesses, and the role you, the agent, play in helping others. You help your clients choose an appropriate life policy based on their particular circumstances and projected end-of-life needs and desires.



By Steve Shorrock

Nothing in this world is static, however, and the need for life insurance changes as insureds mature and their circumstances change. Wouldn't it be great to design a life policy that meets lifestyle changes throughout the life of the insured? Life settlements are an extension of the traditional life insurance industry and can be a potential option for insureds going through these changes.

As many of your clients approach their 70s and beyond, life insurance products sometimes make up a disproportionate amount of their net worth and may no longer be needed or wanted. Most clients in this situation have in the past had no choice but to continue paying premiums, let their coverage lapse, or surrender for minimal cash value.

I receive phone calls on a daily basis from agents about the viability of selling a life insurance policy in the secondary market. Since life insurance is property, insureds have the right to sell their unwanted or unneeded life policies, which was confirmed in the landmark Supreme Court decision, *Grigsby vs. Russell* nearly a hundred years ago.

Approximately half of the proceeds from life settlements are being used to purchase new insurance. This includes more efficient life insurance coverage policies with death benefit guarantees, long-term care policies and annuities to provide for lifetime income.

Many life insurance industry comments erroneously confuse the relationship between "Stranger Owned Life Insurance" (STOLI/IOLI) and life settlements. These transactions often involve non-recourse financing, and are usually a transaction between funding entities, agents and their clients. Life policies that are manufactured to be sold and do not have the required insurable interest at policy issue are just bad transactions, and are not supported by the Life Insurance Settlement Association (LISA).

Life settlements are a wonderful consumer option and provide potentially significant value. Instead of "settling" the policy back to the insurance company (surrender or lapse), a life settlement can provide value that is often multiples of the Cash Surrender Value. Consumers can use the proceeds from settle-

ments to support their lifestyle changes. It is the fiduciary responsibility of every agent to present a life settlement as an option for clients who might be considering lapsing or surrendering a policy. Life insurance companies that prohibit their agents from suggesting life settlements as an option are not aligned with providing the best solution to their policyholders.

An alarming statistic from a leading actuarial consulting firm, Milliman and Robertson, states that 88% of all Universal Life policies never result in a death claim. We would suggest that an insured, age 70+, with a life policy that is either lapsing or surrendering must be presented with the option of a life settlement.

Below are a few examples of actual cases that show how consumer-friendly life settlements truly are:

From Bill Benedict, Vice President of Jack Quinnan Associates in Binghamton, New York

"Working on life settlements has been a 'win-win-win' for our clients. For an example, we just completed a settlement on Jim, age 83, a retired businessman. Jim has been our client for nearly two decades. His Universal Life policy with a face amount of \$540,000 was 'running out' and the future premiums were no longer affordable. The insurance, originally Key Person, had served its purpose and was no longer needed.

We were able to receive \$101,000 of value in the policy through a life settlement. The money was well-received and came at an opportune time as Jim's wife was ill and receiving experimental treatment not covered by their medical insurance. The bottom line is everybody wins!!!!"

From Paul Gomperz, President of VBS Consulting Group LLC in Millburn, New Jersey

"Jack has been my client for 15 years. At retirement, his \$400,000 Group Term policy was too expensive to convert. Instead of converting the Term, he purchased a new \$400,000 Universal Life policy that was only needed five years as his estate would be set at that point. At the end of this five-year period, Jack approached me about surrendering the policy as the cost to carry the policy to maturity was very expensive as Jack was paying only minimum premiums. At that time, I turned the case over for a life settlement and Jack was able to receive an offer of \$144,000. Compared to a minimal Cash Surrender Value, Jack can afford to pay his and his wife's Long-Term Care needs for the foreseeable future."

From Bob Vandy, Director of Business Development for New York Long-Term Care Brokers in Clifton Park, New York

"We recently closed a great life settlement case which epitomized how valuable life settlements are for our clients. The insured, Bill, an 89-year-old male, was actually referred to us by his attorney and was in the process of relocating to a nursing home and making sure his affairs were in order, given that

substantial change in his life. The policy, an \$800,000 UL issued in 2000 and owned by the client's ILIT (client's daughter, Maureen, is the Trustee), had a current Cash Surrender Value of about \$78,000. If the current premium of approximately \$50,000 per year had continued, the policy would have lapsed within 1-2 years. In order to carry the policy out to age 100, the premium would have more than doubled!

A series of factors led to the determination on the part of Bill and Maureen that the life settlement was a very strong solution to their planning needs.

1. The policy was 'imploding' at the current premium level, and there was little chance that the client/grantor would increase his gifts to the trust to accommodate the doubled premium necessary to carry the policy to maturity.
2. One of Bill's original intentions in purchasing the policy was to offset the impact of estate taxes, and his situation (as well as the estate tax in general) had changed so that estate tax mitigation was no longer an issue and the policy was no longer needed.
3. With the other main option being considered by Bill was to surrender the policy for its \$78,000 Cash Surrender Value, pursuing a life settlement became a natural choice.

The policy was put out to bid and generated several attractive offers for Bill and Maureen, the highest of which was \$390,000 and was ultimately accepted by them. The end result? Bill and Maureen were ecstatic because she as Trustee would not only no longer have to pay premiums for a policy which had outlived its usefulness, but also not have to pay

twice the premium just to keep the policy in-force to maturity. And, rather than simply accept the surrender, they received \$390,000, five times the surrender value! As Trustee, that gave Maureen the flexibility of then using those funds for other purposes (subject to the terms of the Trust) which may not originally have been contemplated."

From Jim Meyer, Vice President of Heritage Group LLC in Melville, New York

"Our client Gladys, a 71-year-old female, had a \$1 million Universal Life policy and was paying over \$72,000 a year in premium. The cash value of the policy was over \$51,000. Gladys came to us as she could no longer afford the premiums so we had this policy taken to the secondary market. The life settlement generated \$155,000. A very nice win for her!!!!"

With more and more institutional investors entering the secondary market every month, now's the time to talk with your senior clients about the benefits of life settlements for policies that are no longer needed or wanted. ❖

Steve Shorrock is President of LifeVentures Corp, which designs new life insurance products and develops marketing concepts for agents, and Co-Managing Director of Select Life Settlement Corporation, a life settlement firm that brokers seniors' unwanted or unneeded life insurance policies. You can reach him at his Northport, New York office at 631-239-6655 or steve@lifeventurescorp.com.

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