LifeSettlement ADVISORS

Life Settlements and Your Fiduciary Responsibility

Dictionary.com defines a fiduciary as "a person to whom property or power is entrusted for the benefit of another" and the thesaurus uses words such as guardian, trustee, aboveboard, trustworthy and straight as interchangeable words for fiduciary. Insurance agents may not be fiduciaries yet, but aren't they being positioned by their companies as trusted advisors who are supposed to be doing the right thing for their clients? However, at the same time many insurance companies and broker-dealers still object to their producers helping clients to explore a life settlement before a policy gets lapsed or surrendered.

Hard as it is to believe, each year over $100 billion of face amount of life insurance lapses on insureds over age 65. This massive amount of death benefit represents over 500,000 policies with an average face amount of $200,000. Realistically, only a small percentage of these policies would likely qualify for a life settlement. But if you were a client with a policy that could have been settled, and your trusted advisor did not advise you of that option, wouldn't you feel that the advisor you count on to give you the best possible advice has violated your trust?

As the new DOL Fiduciary Rule is phased-in next year, it seems more than likely that the best interest principle will ultimately carry over into all aspects of a producer's business, including life insurance and, consequently, life settlements. If your company prohibits you from facilitating a life settlement, you are being prevented from acting in your client's best interest. Could you be held responsible by a client who was damaged financially by missing out on a life settlement and receiving only the surrender value for a policy which they terminated?

See below case studies:

- An 81-year-old male sold a $1,000,000 Lincoln Life UL policy, which provided him with $150,000 cash settlement (cash surrender value was $0),

- An 85-year-old female sold a $2,500,000 TransAmerica UL policy, she received a $500,000 cash settlement (cash surrender value was $118,000),

- A 64-year-old male sold $150,000 of his Sun Life term policy, he received a $15,100 cash settlement (the term policy face was $250,000; he converted $100,000 and kept that for his beneficiary),

- A 65-year-old male sold a Corporate owned $10,000,000 TransAmerica convertible term policy, he received a $3,000,000 cash settlement,

- An 85-year-old female and 88-year-old male sold a $4,000,000 Prudential Joint survivorship policy, for a $1,250,000 cash settlement (cash surrender value was $200,000).

In the 5 above case studies, if the insureds or owners had cashed in or surrendered their policies, they would have lost out on $4,597,100. Those funds could have been used for bucket lists, healthcare, living expenses, and or supplementing retirement. If you were their trusted advisor and did not discuss the life settlement option and this money was lost, shouldn't you have been held liable?

Too often, we hear from trusted advisors who say things like, "my company won't let me participate in a life settlement" or "I will be terminated for discussing life settlements." The time for change has arrived – are you living up to your fiduciary responsibility?

For more information, please contact Life Settlement Advisors today!

Leo LaGrotte
Life Settlement Advisors
llagrotte@lsa-llc.com
1.888.849.0887
www.lsa-llc.com