LifeSettlement Advisors

Investment Managers

CREATE NEW ASSETS TO MANAGE FOR YOUR CLIENTS WITH LIFE SETTLEMENTS

Introduction

According to a 2016 survey, more than 85% of seniors were not aware that their life insurance policy could be sold for an immediate, one-time cash payment. Perhaps more startling, ***90% of policyholders whose policies lapse would have considered a life settlement, had they known it was an option.***

Investment and wealth managers who work with seniors, even those who don't sell life insurance policies, have a fiduciary responsibility to inform them of their options when it comes to life insurance and life settlements (or the selling of a life insurance policy). Yet, when we talk to investment advisors, many don't think about life settlements, don't know how easy settlements can be on their part, and don't know how to get started.

This paper is specifically designed to help investment and wealth managers better understand life settlements, including what a life settlement is, who qualifies, when a life settlement makes sense, and how to talk to your client about this important option.

For many financial advisors, a life settlement, or the sale of a life insurance policy, creates an opportunity to gather more assets under management, creating more assets for your clients and possibly increasing their net worth. Lastly, making clients aware of this opportunity can keep your competition at bay.

Life Insurance: Background and Context

In the United States, the sale of life insurance started in the mid-1700s when the Presbyterian Synod of Philadelphia made life insurance policies available for Prebesyterian ministers and their dependents. By the mid-1970s, more than 70% of American adults had a life insurance policy.

Fast forward to today, and the life insurance and annuities market is worth $886.7 billion, and there are more than 830 life insurance and annuities companies in the United States alone.

Since the mid-1970s, the proliferation of life insurance policies has declined, and as of 2021, 52% of American adults have some form of life insurance. This decline is, at least in part, due to the cost of premiums increasing and the need for life insurance, in general, is decreasing for many individuals. For those individuals who have a life insurance policy they no longer want or need, selling their life insurance is an often-unexplored possibility.

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What is a Life Settlement?

A life settlement is a term used to describe the sale of an existing life insurance policy for a one-time cash payment. Although the value of a life settlement varies based on a number of factors, life settlements yield higher returns than simply surrendering the policy. In fact, research has shown that policyholders who sell their policy can make more than four times the amount they would have made by surrendering it. Recent data even indicates that this number could be as high as seven times the surrender amount.

For policyholders who no longer have a need or who cannot afford paying premiums for life insurance, this is an excellent alternative to simply surrendering it, or worse yet, lapsing their policy. Yet, too many seniors are unaware of this option. In fact, a 2018 report by the investment firm Conning projected that $200 billion worth of life insurance would lapse or be surrendered each year through 2027. In many of these instances, a life settlement could provide these individuals with more liquidity. Additionally, life settlements could provide investment advisors with the opportunity to create new assets for their clients—further diversifying their clients' investments and potentially increasing the compensation they receive.

How Do Life Settlements Work?

Many investment managers, financial advisors, and wealth advisors are simply unclear on the process of a life settlement, and they do not know how easy the process can actually be—especially when working with a life settlement company like Life Settlement Advisors (LSA).

Most life settlements follow a basic, five-step process. While there is some upfront work that must be done by the investment manager, financial advisor, or policyholder, a lot of the work is done by life settlement companies. In other words: There's very little added work on the part of the investment manager or financial advisor, but the payout can be significant for the client. Here are the basic steps:

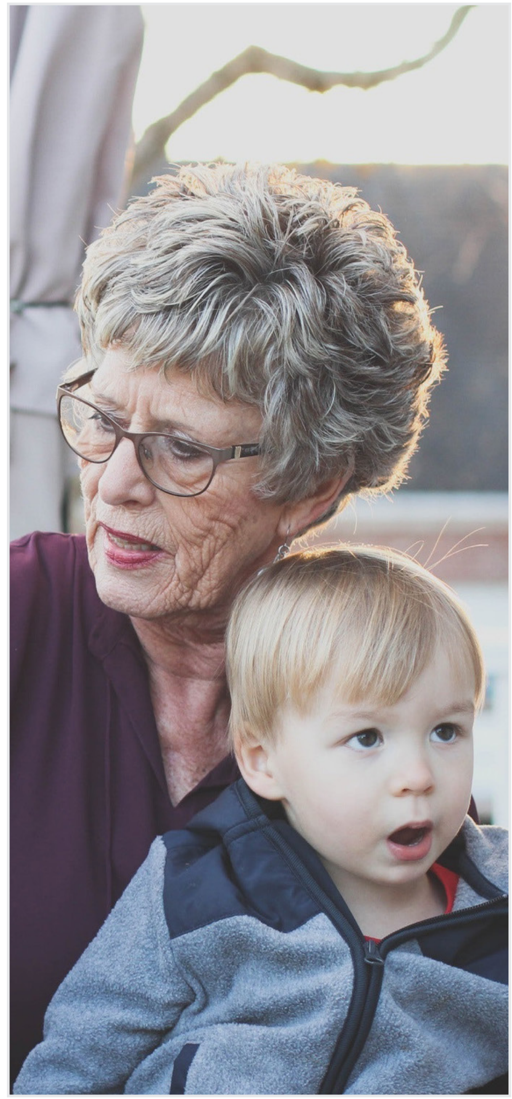
1. First, a financial advisor, in tandem with their client, should use a life settlement qualification calculator to understand if all the qualifications would be met to sell the policy. This asks some basic questions about the policy and the policyholder.
2. Next, there is a straightforward application that must be filled out. It asks about the policy itself, in addition to lifestyle and medical questions. Once this step is done, the primary work of the financial advisor and policyholder is done.
3. Once received, life settlement companies will review the application, the policy, and any applicable medical records to determine if the client's policy will qualify for the life settlement market.
4. Upon completion of the underwriting, the policyholder will receive offers on their policy, which they can review before accepting or rejecting it.
5. If the policyholder accepts, a closing packet is sent and they will receive a lump sum, one-time payout for their policy.

What are the Qualifications for a Life Settlement?

There are four basic categories of qualifications for a life settlement. In general, the ideal client is a male or female in their mid-70s or older who has had a change in health since the policy was issued. An exception to this guideline would be a male or female in their 60s to early 70s who has multiple chronic medical conditions and a significant health change has taken place since the policy was issued. For an insured to qualify, their life expectancy must be 15 years or less. Finally, term policies can be sold as long as they are convertible.

Let's break that down a bit further. To qualify, policyholders need to meet each of the following:

- **Age:** The ideal candidate for a life settlement is in their mid-70s or older, with a life expectancy of under 15 years. They will have had a change in health since the policy was issued. Note: this is different from a viatical settlement, which is designed for terminally ill individuals with a life expectancy of fewer than two years.
- **Type of Policy:** To sell a life insurance policy, it must be the right type. The most common policy that is sold via life settlement is universal life. Term life insurance policies may only be sold if they have a convertibility option (but there are exceptions to this rule). Joint survivorship universal life and whole life policies may also be sold. Essentially, just about any type of policy can be sold.
- **Current Premium:** Although there is no hard and fast rule, the lower the premium the more valuable the policy. This is because the buyer of the policy will assume the responsibility of paying the premium.
- **Death Benefit**: In order to qualify, the death benefit must be at least $100,000.



To assist in determining if your client would qualify for a life settlement, investment managers are welcome to use LSA's life settlement qualification calculator.

When Does a Life Settlement Make Sense?

Whether or not your client would qualify for a life settlement, it is important to determine if they are the right fit for one. For seniors, a life settlement can be a great option in many different situations. However, sometimes it simply doesn't make sense. And that's where investment managers and wealth managers can make all the difference.

As financial advisors, your advice focuses heavily on your clients' lives, such as their financial realities and goals. As such, determining whether or not to suggest a life settlement is an important step in the process. Here are a few common scenarios where it makes sense for a policyholder to sell their policy.

THERE IS NO LONGER A NEED FOR LIFE INSURANCE

Often, policyholders purchase life insurance as a way to ensure their loved ones are covered in the event of a death. After all, policies can temporarily replace income to care for dependents, pay for end-of-life expenses, or create an inheritance. However, as policyholders age, they may find themselves in a situation where the policy is simply no longer needed. Perhaps they are divorced or widowed. Perhaps their dependents are grown and don't need the financial benefits of a life insurance policy. In this case, the policyholder may wish to stop paying costly premiums and instead seek a life settlement.

THE POLICYHOLDER IS CONSIDERING SURRENDERING THEIR POLICY

If your client has mentioned that they do not need their life insurance policy or that the premiums are becoming unmanageable, it may be a good time to bring up the life settlement option. While most life insurance policyholders are aware of their options for surrendering their policy, many just aren't knowledgeable about life settlements. Informing them of this possibility could net them significantly more money than if they were to simply surrender it—or worse, to let it lapse.

THERE IS AN IMMEDIATE NEED FOR LIQUID ASSETS

If your client has an immediate need for assets with more liquidity, a life settlement may be a good option. In cases of retirement or emergency, the policyholder may have a need for cash to pay for unforeseen expenses, medical bills, or to supplement their retirement savings.

THE POLICYHOLDER WISHES TO SEEK NEW INVESTMENTS

Especially when working with high-wealth clients, there may be discussions of seeking new investment opportunities or diversifying current investments. In this instance, not only could a life settlement policy net additional money for clients over surrendering a policy, but it can provide investment managers with a chance to create new assets for their clients.

Creating New Assets with Life Settlements

When it comes to life settlements, the benefits for the policyholder are obvious: they get more money than they would from surrendering it, and they can stop paying premiums on a policy they simply no longer want or need.

However, life settlements don't just benefit policyholders. For investment managers, one of the best outcomes of a life settlement is the opportunity to create new assets for your clients. Whether the policy is underperforming or the policy simply isn't needed any longer, a life settlement can provide immediate liquidity for other investments that better fit their financial needs and goals.

And, because most investment managers work or are paid a fee or commission for assets under management, an opportunity to diversify your client's portfolio and create new assets can not only improve their financial well-being, but it can provide increased fees or commissions for you. It's truly a win-win.

SO HOW DO YOU GET STARTED? WE'VE PUT TOGETHER A FOUR-STEP CHECKLIST THAT CAN TAKE YOU FROM START TO FINISH.

1. **Get to know a trustworthy life settlement company.** At LSA, we have been in the life settlement business for over 22 years. We pride ourselves on being a voice of confidence and assurance, working with investment managers and clients to ensure that a life settlement is truly the right option. Like you, we truly want the best for the clients we work with.

2. **Determine if your client is a good fit.** Before moving forward with the life settlement process, check in with your client to find out if it might be a good fit. Discuss what's currently going on in their life, including their employment status, post-retirement plans, anticipated expenses, income needs, the status of their savings account, their liquidity, their goals, the status of any dependents, and their overall health. Each of these factors may play into whether or not they should seek a life settlement.

3. **Work through the qualification and application process.** Once you've determined a life settlement may be a good move, work through the qualification calculator and application process with your client. And if you have any questions about the overall process, you can always get in touch with us at LSA.

4. Of course, whatever is done with that money after it is paid out is up to the client. However, during this process, you may wish to speak with your client regarding what they wish to do with the payout. This is an excellent time to discuss investment opportunities and how the life settlement can be used to create new assets. Inform your client of investment options you think might fit their financial goals.

Life Settlement Advisors:

Your Trusted Partner in Life Settlements

Ready to get started helping your clients with life settlements and all the benefits they can provide?

Contact Life Settlement Advisors on our website at 317-863-5936 or toll-free at 888-849-0887 to learn how a life settlement can be a valuable option for you and your clients or contact LSA with any questions or comments regarding the life settlement marketplace.

We look forward to helping you and your clients realize the myriad benefits life settlements can offer.

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