



Life Settlements 2013: The Secondary Market for Life Insurance Policies

Executive Summary

A Life Settlement is the sale of a life insurance policy to a third party for an amount greater than the cash surrender value of the policy. The original owner receives a cash settlement, and the new owner assumes the rights to the policy.

Life settlements are an option for owners of a life insurance policy insuring an individual over the age of 65, when the policy is no longer needed, wanted or affordable. For term policies with a conversion option, it is an option when the policy will not be converted to a permanent policy. Life settlements present an extraordinary option for financial advisers to assist their clients.

A life settlement can be completed in as little as six weeks, working with an experienced and knowledgeable specialist. Universal life, whole life and term policies with conversion options are all viable candidates.

A. The life settlement industry is comprised of four main participants:

1. **Sellers** - Owners of policies they wish to sell. This may be an individual, trust, corporation, LLC, or not-for-profit entities.
2. **Providers** – Entities which are licensed to effectuate a contract and purchase policies from sellers.
3. **Financing Entities/Funds** – These are entities whose principal activity is to invest funds into providers to effectuate life settlement contracts.
4. **Brokers** – These are entities that work for sellers, accessing the maximum value for policies by accessing the market, comprised of multiple providers and financing entities/funds.

Life settlement brokers work directly for clients or their financial professionals to produce multiple bids for policies. Choosing a broker should be based on the broker's experience, reputation and knowledge of this specialized industry.

Employing an experienced life settlement broker maximizes the value of a policy, because multiple purchasers may submit competing offers. The broker is able to leverage the offers and offer the strongest options to clients. Conversely, it is a disadvantage to employ more than one broker, as the submittal process to life settlement purchasers will be duplicative, creating excessive paperwork and an impression the seller is not seriously interested in a settlement through a trusted channel. Experienced brokers achieve the highest value for policies because their platform is comprehensive—providers prefer to work with the most experienced and professional brokerages.

Life settlement brokers need to be specially licensed in states that regulate the industry. Evolving state regulations require the broker to keep abreast of new developments. Life settlements can be complex financial transactions and are generally conducted on behalf of clients by professional advisors who work with a life settlement brokerage. Financial professionals ensure they meet their fiduciary obligation by discussing a prospective settlement case with an experienced life settlement brokerage.

B. Reasons to consider a life settlement:

1. Life insurance policies kept in force for beneficiaries may no longer be required.
2. Premium payments may have increased, or policyholder's income may have diminished, rendering the policy unaffordable. Premium payments can be eliminated by the sale of the policy, or conversion to an irrevocable benefit.
3. Life settlement value may be significantly more than cash surrender value.
4. Term policy is reaching the end of the term, is convertible, and then may be settled.
5. Corporate key man policy no longer needed.
6. A donation of a life insurance policy to a not-for-profit organization may be gifted after it is monetized, or a not-for-profit may accept a policy and complete a life settlement as the new owner.
7. Recent changes in the law concerning federal gift and estate tax may make life insurance policies purchased for estate liquidity needs unnecessary.
8. Changes in family circumstances may no longer require a policy.

C. How value is determined:

Value of a life insurance policy is determined by multiple factors, including: age and medical condition of the insured, type of policy, amount of face value, rating of the life insurance company, and premium necessary to keep the policy in force. The amount of a life settlement is by definition greater than the cash surrender value, and less than the face value of the policy. When an application for a life settlement is completed, policy information and medical records are examined to evaluate arbitrage and to determine the market value for the policy. These processes are accomplished entirely by the life settlement broker, at no cost to the policyholder. No medical exam is required.

D. Process

1. Submit a completed application and other required forms for processing.
2. Life settlement broker begins a complete underwriting of the case including medical records retrieval, policy information from life insurance carrier, life expectancy reports.
3. Life settlement broker submits complete information to life settlement provider/fund marketplace to procure the best market offer for the policy. All offers are presented to the policy seller.
4. Once the policy seller accepts an offer, the broker issues an offer/disclosure letter followed by closing contracts to the policy seller.
5. Documentation and all additional requirements are completed. Funds are escrowed and change forms are submitted to the life insurance carrier.
6. Changes are recorded and confirmed; funds are released to the seller.

The life settlement process can be completed in six weeks.

Genesis Asset Advisors

Since 2007 Genesis has processed over \$4 billion of face amount. Our level of experience, strategic relationships, leveraging abilities and industry leading reputation within the market ensures the highest and very best offer for every policy. Genesis completes the all administrative, underwriting, and closing processes with no delays and excellent client communication.

Life Settlements - A Regulated Industry

Most states are regulated by the applicable state insurance/banking/financial services regulatory authority. Regulations for providers and brokers may apply to multiple areas of a life settlement transaction including but not limited to:

- Licensure
- Time a policy must be in force before a life settlement is permitted
- Forms and disclosures
- Commission disclosure
- Rescission periods

Case Studies

74 year old male – Term policies total \$3 million – cash surrender value \$0 - converted and sold for \$256,350. When term policies expire, they are worthless; conversion is often possible.

85 year old female – \$ 6.5 million UL – cash surrender value \$0 – sold for \$860,000

Policy had been previously marketed; price exceeded client expectations.

86 year old female – \$500,000 policy – cash surrender value \$0 – sold for \$150,000

History

The life settlement industry was born out of the seminal 1911 Supreme Court ruling in the Grigsby v. Russell case. The court determined that life insurance is private property and may be assigned at the will of the owner. Writing for the court, Justice Oliver Wendell Holmes stated: “to deny the right to sell except to persons having such an interest is to diminish appreciably the value of the contract in the owner’s hands.”

In 1900, there were 14 million policies in force in the US totaling approximately \$7 billion.

In 2010 there were 284 million policies in force in the United States, totaling almost \$18.4 trillion.

Approximately 5.5%, or \$972 billion, was allowed to lapse, which provides zero benefit to beneficiaries.

Approximately \$1 Trillion dollars worth of life insurance lapsed in the US in 2011

Only 1 percent of term policies ever result in a claim

According to the Life Insurance Settlement Association, in the last four years over \$8 billion has been received by policy owners through life settlements. That is approximately \$7 million a day provided to seniors.

Resources

American Council of Life Insurers: ACLI Life Insurers Fact Book 2011

<http://www.acli.com/Tools/Industry%20Facts/Life%20Insurers%20Fact%20Book/Pages/GR11-198.aspx>

Life Insurance Settlement Association

<http://www.thevoiceoftheindustry.com/>

New York Life Settlements Act

http://www.dfs.ny.gov/insurance/life/insurers/life_settle_act.doc

Understanding Life Settlements – Selling your life insurance policy

www.dfs.ny.gov/insurance/life/insurers/LSConsumerInfoBook_4-2-10.pdf

Insurance Studies Institute

<http://www.insurancestudies.org/>

Should I Sell My Life Insurance Policy? A Consumers' Guide to Life Settlements

<http://www.insurancestudies.org/2009/10/research/should-i-sell-my-life-insurance-policy-a-consumers%E2%80%99-guide-to-life-settlements-comprehensive-guide-condensed-brochure/>

Financial Industry Regulatory Authority

<http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/AnnuitiesAndInsurance/P018469>

Insure.com

<http://www.insure.com/articles/lifeselements>