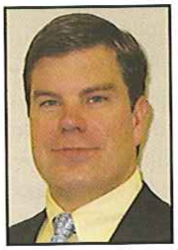
As Seen In
LIFE INSURANCE SELLING

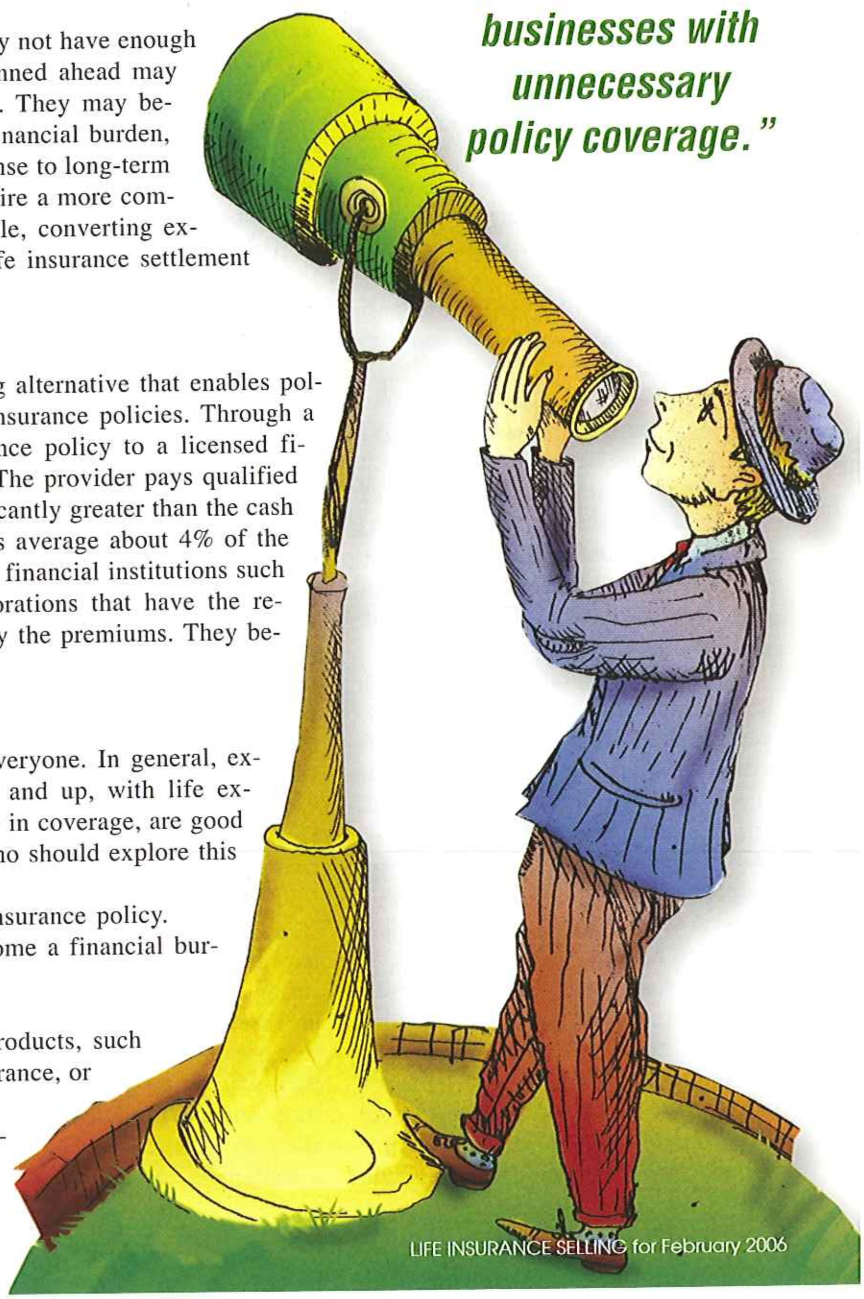
What to Look For In a Life Settlement Transaction



By Jay A. Robbins
Life Plans Unlimited
2228 Black Rock Tpke, Suite 301
Fairfield, CT. 06825
800-653-1322 / www.LifePlansUnlimited.com

"Life insurance settlements also can be a smart alternative for businesses with unnecessary policy coverage."

While many baby boomers fear they may not have enough life insurance, seniors who have planned ahead may find they have the opposite problem. They may believe the premiums have become a financial burden, or they may need to redirect the expense to long-term care insurance or annuities. Or they may simply desire a more comfortable life in retirement. For many of these people, converting existing life insurance policies into cash through a life insurance settlement can be a smart financial decision.



What Is a Life Insurance Settlement?

A life insurance settlement is a financial planning alternative that enables policyholders to receive the optimum value of their insurance policies. Through a settlement, a person sells an unwanted life insurance policy to a licensed financial institution, sometimes called a "provider." The provider pays qualified policyholders a lump sum payout that can be significantly greater than the cash surrender value of the original policy. (Cash values average about 4% of the policy face amount.) The purchasers are established financial institutions such as banks, insurance companies, and finance corporations that have the resources and stability to purchase the policy and pay the premiums. They become the new beneficiary for the policy.

Who Should Be Interested

Life insurance settlements are not suitable for everyone. In general, experts agree that policies covering seniors age 68 and up, with life expectancies of two to 12 years, and at least $100,000 in coverage, are good candidates for life insurance settlements. People who should explore this alternative include:

- A senior who no longer needs his or her life insurance policy.
- A senior for whom policy premiums have become a financial burden.
- A senior seeking alternative financial planning.
- A senior seeking capital for other insurance products, such as long-term care insurance, second-to-die life insurance, or annuities.

Life insurance settlements also can be a smart alternative for businesses with unnecessary policy coverage. Life settlements for unneeded key-person or buy-sell policies can provide a quick infusion of cash to deal with immediate financial needs, and settlements for split-dollar policies can aid with long-term retirement planning.

How It Works

Several parties are involved in the settlement transaction process, including the policyholder (who may be an individual or a business); the financial adviser, insurance professional or accountant; the life settlement broker; and the provider, who will be purchasing the policy in the settlement.

Financial advisers use brokers to help get the best possible offers for the policy. The adviser should choose a broker who will provide clients with the greatest financial return while upholding the most rigorous ethical standards. Some questions to consider include:

• Does the broker have significant experience with life insurance settlements?

• How many settlement providers does the broker represent?

• Does the broker disclose all bids and fees?

• Is the broker licensed to do business in the states required to complete the transaction?

• What commission will the broker earn from the provider when the transaction is successfully completed?

• Does the broker present all policies to each provider? If not, this may be a red flag that indicates preferential agreements between the broker and a provider that can result in lower offers for settlement.

When the financial adviser and policyholder sit down at their annual review, they can discuss the existing life insurance policy in the context of the client's overall financial situation. If, after careful consideration, they agree that a settlement seems to be an appropriate option, the adviser should bring in a professional life settlement broker to handle the case.

The broker prepares the case for the life settlement market and conducts a financial auction to get the top price for the policy. A properly prepared case is essential to secure the top bid in the shortest time possible. The broker will gather all medical information on the insured and will contract for life expectancy reports to submit to the prospective providers. The providers will review the case and each make an offer based on actuarial calculations. An expert broker will play the bidders against one another and then present the top bids to the policyholder's adviser.

When deciding which offer to accept, the policyholder should remember to consider not only the gross offer itself, but also the offer net of broker commissions and fees, the time to complete the closing package, and the tax implications of the settlement transaction. After the policyholder has accepted an offer, he or she usually will receive the cash payment for the policy within days.

Tax Implications

In general, the net proceeds of a life insurance settlement (the difference between the total amount of premiums paid and the settlement amount) are subject to capital gains tax. Each situation is different, however, so individuals or businesses thinking about life insurance settlements always should consult a financial adviser to determine the specific tax implications.

Potential Pitfalls

While it may seem that life insurance settlements are a relatively new invention, the underlying concept has been used in cases on record for more than 150 years. That doesn't mean, however, that there aren't potential problems associated with life insurance settlements that should concern policyholders, financial and insurance advisers, and life insurance settlement brokers.

First, policyholders seeking a settlement should be aware that life settlement providers come in a variety of structures. Most experts agree that it is safer to choose a provider that is both institutionally owned and funded, and they recommend that the broker contract include an agreement to refrain from soliciting private funding sources.

Second, brokers should be careful to recommend settlement providers with strong compliance programs. These programs monitor and manage licensure, fraud prevention, broker/dealer issues, consumer privacy, and federal, state, and local regulatory compliance, and thus are an essential component of a settlement provider's due diligence process. For this reason, providers with an in-house compliance department are better positioned to ensure that appropriate due diligence is completed for all parties before committing to a life insurance settlement transaction.

Third, a majority of states have adopted laws and regulations covering life insurance settlement transactions, so it is important for financial advisers and brokers to understand the applicable rules for licensure, distribution options, and consumer protection issues.

The Key to Success

Despite the potential pitfalls mentioned above, life insurance settlements are an increasingly attractive way to cash out unneeded policy coverage. For policyholders, the key to success lies in a strong web of integrity and accountability among the financial adviser or life insurance professional, the settlement broker, and the provider. Done correctly, these transactions result in benefits for all parties involved and provide a much-needed alternative for policyholders with excess coverage.

A Case in Point

Mike Feigin of Westport, Conn., has been an insurance agent for 50 years and was one of the youngest members of the Million Dollar Round Table during the 1950s. Feigin recently completed a life settlement transaction and was pleased with the results. "The broker's team kept me informed of our case on a continuous basis, let me know what type of bid they expected, and was very open and transparent about the highest bids they received in the secondary market," Feigin said. "This allowed me to have informed answers for my client's questions from beginning to end and made me confident my client received the best bid in the market."

Jay A. Robbins, Director of the Life Settlement Brokerage Division with Life Plans®, works with broker/dealers, insurance agencies, agents, accountants, and financial planners to introduce the Life Plans® services to their clients by leading group seminars and consulting with producers individually.