LIFE
SETTLEMENTS

POLICY
VALUATIONS

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"do what is right
and you will be
blessed"

Timed Outline
One Hour
2020-2021

LIFE SETTLEMENT LEGAL AND ETHICAL RESPONSIBILITY

Disruption is the new normal for many planning professionals that work with their clients in a fiduciary capacity. It's difficult for any fiduciary to feel comfortable today working with clients on matters that are outside of their area of expertise. This is especially true with life settlements.

Life settlement providers, who represent the institutional investors, have noticed the lack of life settlement discussions and education coming from planning professionals and are filling this void by increasing their direct-to-consumer marketing. Such direct marketing exploits a crack in the chain of fiduciary oversight and places senior clients in a position where they might enter into a contract to sell their life insurance policy without having any advocate at the table to protect their best interests in the life settlement process.

We will discuss multiple disruptive factors that have negatively impacted senior clients and show how we arrived at a point where so many seniors are not represented by a fiduciary when they sell their policy on the secondary market. We will review life settlement regulations, laws, and litigation that protect the rights of policy owners to sell their policies. Our main goal is to alleviate the confusion surrounding life settlements that have caused a majority of fiduciary advisors to avoid discussing life settlements with their clients. We will close with a list of Life Settlement Best Practices for Fiduciaries that will help them protect their client's best interest if their client is planning to lapse or surrender an existing life insurance policy.

LEARNING OBJECTIVES:

At the conclusion of our discussion about life settlements and policy appraisals, attendees will be able to:

IDENTIFY clients in financial transition who may benefit from a life settlement.

INFORM eligible senior clients about the wisdom of getting their life insurance policy appraised for fair market value before they lapse or surrender their policy.

INCORPORATE life settlement best practices into their processes so that client best interests will be protected, and potential liability/reputational risk will be mitigated.

A peek behind the life settlement curtain – (6)

- The elephant in the room – results from survey registrants
- Why life settlements have moved from an uncomfortable discussion to a vital consideration for seniors in financial transition
- Why were insurance carriers opposed to life settlements initially and where do they stand today?
- What is a life settlement (vs. a viatical settlement)?
- Secondary Market – regulation, buyers, strength
- Life settlements provide planning flexibility
- Increased longevity impacting planning
- Unrealized asset – repositioned for today's needs
- Institutional buyers, escrow agents, and portfolio administrators
- Reasons why clients may want to sell their policy
- Changes in tax law and increases in the lifetime federal estate tax exemption

LIFE SETTLEMENT MYTH #1 – Buyers want to purchase policies rich in cash (2)

- If that is a myth, then what are institutional investors looking for?
- Universal Life and Convertible Term products represent more than 90% of the policies purchased by institutional investors
- Insured's age 65 and older with a change in health since the policy was issued
- Any insured (no matter what age) with a life expectancy of 15+/- years
- Any insured age 80 or greater

Story/case example discussion – Term Life Insurance Settlement – (6)

- Exploring exit/change strategies for existing term insurance policy
    - Needs changed, and health declined
    - Collaboration needed from advisory team
    - Role of the life settlement broker
    - Addressing different points of view and concerns of the advisor team
    - Managing expectations
    - Case control
    - Unique outcome because of partial term conversion

LIFE SETTLEMENT MYTH #2 – If it's good for an investor to purchase, then your client should keep the policy and keep paying premiums – (3)

Law of large numbers:

- What it means to the seller
    - Doesn't benefit from law of large numbers if they decide to hold and pay
    - Clients in financial transition may be able to extract the imbedded value to use for other financial objectives

- What it means to the buyer
    - Diversification
    - Risk spreading
    - Fiduciary position of the institutional investor/buyer

LIFE SETTLEMENT MYTH #3 – I'm not a life insurance expert, so I cannot/should not get involved in speaking about life settlements to my clients – (2)

Story/case example discussion - A Million Pounds of Pressure – (5)

- Pitfalls of advisor disintermediation
- Distraught client reached out to attorney after receiving letter from IRS for back taxes from a life settlement completed two years prior.
- Client had a terminal illness and sold their policy to direct buyer and never consulted with CPA or any advisor
- Why policy owners selling their policies need independent representation
    - Fiduciary due diligence
    - Competitive bidding process
    - Transparency

- Matching the right buyers with the right sellers

Impact of a sustained low interest rate environment on unmanaged universal life insurance policies – (3)

- On policy owners
- For institutional investors
- Unintended consequences of universal life and why this policy type represents >80% of the life settlement market
    - Introduce in 1979 and shifted management risk to the policy owner
    - Policies did not perform as projected
    - Who's minding the store? Too many handoffs from advisor to advisor due to passage of time

LIFE SETTLEMENT MYTH #4 – SOMEONE ELSE WILL DO IT/THERE'S TOO MUCH LIABILITY FOR ME TO GET INVOLVE – (2)

Story/case example discussion – Policy in Danger of Lapsing – (5)

- Conversation with dad estranged from his son
- Policy melting away
- Settlement became point of collaboration between dad and son
- What were key factors in making this a successful outcome?

Who is helping clients in financial transition with underperforming or unneeded life insurance? – (3)

- Business owned term policies/business succession planning
- Charity owned policies
- Trust owned policies
- Insured's qualified for Medicaid
- Uncovering liquidity for long-term care needs

Who is the ideal client? – (2)

- Change in health since policy issue
- +/- 15-year life expectancy
- Policy type
- Cost of ongoing premium payments
- Screening device – Policy Value Quiz

LIFE SETTLEMENT MYTH #5 – The only reason that I would need to know the fair market value my life insurance policy is if I want to consider selling it. – (4)

- Insurance carrier issued interpolated terminal reserve values/712 values are grossly inaccurate for universal life and term insurance
- Most life insurance valuation methods are health agnostic.

- The secondary market valuation – SMV
  - Mark-to-market life insurance valuation
  - Incorporated individualize longevity analytics
  - Complies with the IRS willing buyer/willing seller definition of fair market value

- An independent appraisal that determines SMV value is necessary for:
  - Matrimonial disputes
  - Business disputes
  - Reducing litigation risk when trust transfer for dysfunctional blended family
  - Any senior client who plans to lapse or surrender a universal life or term policy
  - Fiduciaries responsible for managing life insurance assets
  - Senior clients outliving their coverage do to unexpected longevity

4 Life Settlement Best Practices that Protect Client Best Interests – (5)

1. Institute a discovery process with your clients about their life insurance.
   a. Use the same process with life insurance that you do with other valuable assets your client's own.
   b. You don't need to be a life insurance expert or have a life insurance license.
   c. Determine how the life insurance fits into the planning objectives of clients in financial transition.

2. Ask your clients the right question: "When was the last time you had your life insurance appraised?
   a. You may be the only person to ask this question.
   b. With senior clients who have owned their life insurance for several years, there's a high probability that the advisors who initiated the insurance purchase are no longer in the picture.

3. Never let a universal life or convertible term policy lapse on your watch without first having it checked for SMV value.
   a. Use the policy value quiz as a screening device with any client that is planning to lapse or surrender their life insurance (even term insurance).
   b. Seek an independent appraisal for all policies/insured's that score 38 or greater on the policy value quiz.

4. Select an independent life settlement resource that represents your client.
   a. Verify that they sit on the same fiduciary side of the table with you and your client. Have them provide all the reps and warranties that prove their fiduciary orientation.
   b. Select a firm that believes the policy owner should have guidance from their advisor/advisory team and has the skill sets to help you control the case and manage the expectations of all stake holders.
   c. Educate your clients to avoid providing information to life settlement direct buyers/marketers that have a fiduciary responsibility to the buyers. These direct to consumer resources want to disintermediate the client's advisor/advisory team.

Closing Remarks – (2)

- Differentiation through a new conversation
- Increasing collaboration opportunities with other advisors/fiduciaries
- You are in a position to change lives and bolster your reputation as trusted advisor

Q&A – (10)