

Why Attorneys need to know about Life Settlements

Life settlements are a new “Arrow in the Quiver” for financial advisors and other professionals serving the senior marketplace. This new financial planning tool now allows senior policy owners to tap previously unrealized value in their unwanted, unaffordable, or underperforming life insurance policies. This asset can now be liquidated for a fair market value and redistributed to address the current financial planning goals of the owner. Whether the current needs are long-term care, retirement income, charitable giving, a new life insurance policy, or simply a vacation, make sure you understand the opportunities a life settlement may provide your valued clients.

If you are an attorney practicing in the estate or financial planning space, you will want to discover the potential value a life settlement can bring to your senior clients.

While not life insurance experts, most high net worth policyholders rely on the counsel of their attorneys when rendering decisions concerning the purchase, conversion, or surrender of the insurance asset. Now, a life settlement is yet another option, often proving to be more attractive than policy surrender.

The Life Settlement option can prove to be a valuable alternative to the traditional 1035 exchange. This is especially true in trustee situations, where legal counsel often bears some degree of liability. The settlement can provide for an escape from one policy with substantially more capital.

The American Bar Association’s *Real Property, Probate and Trust Journal* published in Fall 2003, “The Benefits of a Secondary Market for Life Insurance Policies.” That Report Concluded that policy holders who sold their policies to life settlement providers in 2002 received \$242 Million more than what would have been returned to them by surrenders to the insurers who underwrote them. A year later, that number jumped to \$686 million. A life settlement is the sale of a life insurance policy, usually where the insured is 65+ and is not terminally ill.

Since a life insurance policy is an asset, it is assignable or transferable. Prior to the emergence of the life settlements market, Policy owners of unneeded, unaffordable, or underperforming policies had limited options; continue to pay premiums, pay by premium loans depleting cash vales, Surrender the policies, or let the policies lapse. Today, if qualified, they have the option to sell their policies through a life settlement transaction, which always pays more than what the insurance company would pay through a cash surrender of the policy.

This new option provides the estate planning or business planning advisor with a powerful new tool and additional responsibilities when serving their high net worth and corporate clients, especially for attorneys serving as trustees on a trustee-owned policy. For examples of when to consider a life settlement for your clients se the table below:

Estate Tax Needs Have Changed	Due to erosion of the estate an increase in liquidity, or increase in exclusion level. Need for a policy held in an irrevocable trust may no longer be applicable.
Policies Under-Performing	Many universal life policies were sold on the basis that for a very minimal premium the policies could be kept in force due to specific earnings assumptions. These assumptions in many cases have not been realized and policies have been put in danger of lapse, leaving trustees with two unattractive options and a life settlement option which is usually more advantageous.
Business Owner/Exec Retiring	Business owners often have policies that were purchased for key-man protection or buy-sell arrangements. When the ownership changes or a key man leaves or retires the policies are usually not needed.

Anytime a client over age 65 is planning to lapse or surrender a life policy, there is potential for a settlement option. This provides attorneys and financial professionals with another “arrow in the quiver” to help serve their clients. Understanding how and when life settlements work is the responsibility of any advisor that serves the senior market.

Find out how you can serve your clients better. Call us, today, to learn how Life Settlements might be a key to helping meet your clients’ goals. Ask about our free Policy Asset Valuation.

“Financial professionals need to understand this market and the opportunities and obligations it brings them.”
 Trust & Estates, 2002

“The attorney has an obligation to analyze the circumstances to determine if a life settlement is possible to gain the most for the client.”
 Pennsylvania Law Weekly, “An Often Overlooked Asset”, January 2004



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