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Life Insurance and Life Settlement Companies: *Working Together Toward Success*

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As the life settlement market continues to grow, brokers in the life insurance industry will come across more opportunities to work with the secondary market. For some brokers, the life settlement market has been considered a threat to their livelihood. These brokers are concerned that life settlements have the potential to harm the market and the well-established life insurance business model. The secondary market should not be viewed this way. In fact, life insurance and life settlement companies can work together to not only increase revenue, but also to create ways to provide clients with more effective financial planning options.

"Life insurance and life settlement companies can work together ... to create ways to provide clients with more effective financial planning options."

What is a Life Settlement?

Life settlements are a fairly new concept. Those within the life insurance industry may not have anticipated the development of the life settlement market, therefore leaving some brokers without the needed knowledge to understand the market and the opportunities it presents.

A life settlement is conducted when a senior client no longer wants or needs a current insurance policy. Prior to the emergence of life settlements as a financial option, many seniors were left surrendering their policies for low cash return rates or simply allowing policies to lapse. Life settlements offer an opportunity to sell a policy in the secondary market, while handing over premium payments and rights to the policy's death benefit to a life settlement company. In return, the client receives a cash payment, often much higher than the cash surrender amount of the policy.

For senior clients, life settlements offer a way to use funds garnered from life insurance policies in a variety of situations. For life insurance brokers, such transactions can present an opportunity to meet customer needs and, in many cases, lead clients to more appropriate life insurance coverage.

When is a Life Settlement Appropriate?

Life settlements can benefit seniors looking to make financial changes, but guidelines do exist that regulate which clients are eligible and who should consider the option. The decision to pursue a life settlement transaction is based on a thorough analysis of the client's financial situation, goals, and current insurance coverage. Any

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un-needed or underperforming life insurance policies based on this analysis are eligible for life settlement transactions.

Life settlements are designed for people who are not suffering from a life-threatening or catastrophic illness and whose life expectancy is greater than two years, but typically not more than 17. Policies being considered must have been issued at least two years before the date of the life settlement, with most life settlement candidates owning $250,000 or more in universal life coverage. In addition, clients must be a minimum age of 65 or older, although most transactions involve females aged 75 or older and males aged 72 or older.

> **"By including life settlements in their practices, brokers will enable clients to make critical financial decisions and generate more satisfied clients … "**

There are a number of reasons clients may decide to sell policies in the secondary market. Appropriate client situations include:

- A change in the value of his or her estate or the estate tax liability;
- The policy has not performed as expected, causing premiums to increase to cost prohibitive levels;
- The client needs to fund other needs, such as long-term care;
- Unexpected financial distress;
- A change in the status of the beneficiaries due to divorce or death;
- The client's level term policy is nearing the end of its term of coverage;
- The client has accumulated enough wealth to be self-insured; or
- The client needs to restructure his or her life insurance program with more appropriate coverage.

Who Benefits From Life Settlements?

It is no mystery that people's lives and lifestyles change. At some point, most senior clients will find the need for better coverage or the need for no coverage at all. As a result, the reasons that a life insurance policy was originally purchased may or may not still apply or suit the insured today. Life settlements offer a solution to this dilemma. By working alongside life settlement companies, brokers can further meet the needs of their clients by offering options and financial resources that have been previously unavailable or unknown.

With the cash garnered through a life settlement, clients can choose to purchase stocks, bonds, mutual funds, and annuities, or even donate to charity. Many clients even choose to purchase a new life insurance policy that includes terms better suited to their current situation. For brokers, this could mean retaining more clients, generating additional referrals, and possibly gaining new business from old clients. By including life settlements in their practices, brokers will enable clients to make critical financial decisions, resulting in more satisfied clients. This should also create additional business opportunities from the settlement proceeds once the transaction is completed.

Life Insurance and Life Settlement Companies Working Together

Life insurance companies and life settlement companies have more in common and share more mutual goals than typically known. The life settlement industry can actually be seen as a subset of the life insurance industry and is dependent on the industry's success. Life insurance companies and brokers, along with life settlement companies, work to find and provide the most appropriate financial options for clients. Both industries can support each other's businesses; life settlements cannot be done without the previous purchase of a policy through a life insurance company, while brokers can generate additional business for life insurance companies from clients who have recently completed a life settlement transaction. By providing a viable exit strategy for a client with an unnecessary or underperforming policy, the consumer will benefit from a previously unavailable revenue source. This also enables clients to achieve financial goals through the purchase of a myriad of financial products, including life insurance.

Both industries also depend on regulatory guidance and share common goals to curtail abusive premium lending programs and policies purchased in violation of insurable interest laws.

> **"Offering life settlements as a financial option also allows brokers to increase the marketability of life insurance policies."**

While insurance carriers have tightened underwriting requirements and client disclosures to eliminate these programs, many life settlement providers have enacted business practices that prohibit the purchase of policies financed by these means. Offering life settlements as a financial option also allows brokers to increase the marketability of life insurance policies. Many clients who learn they have an additional exit strategy in the future through a well-established secondary market would be more likely to purchase life insurance in the first place.

The life-settlement market is constantly growing and presenting brokers with business opportunities through access to settlement-eligible senior clients. Including life settlements in their life insurance practice can help brokers to further fulfill their fiduciary responsibilities by advising clients on another viable financial tool.

Brokers can find more information on the life settlement industry by visiting industry organizations' Web sites, such as the Life Insurance Settlement Association (LISA), the National Association of Insurance Commissioners (NAIC), the National Conference of Insurance Legislators (NCOIL), and educational resources such as Life Settlement Awareness Month. By becoming aware of the life settlement industry and the opportunities it provides, brokers can successfully use such transactions to bring in new business and guide long-time clients toward better financial futures. LIS

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