

LIFE SETTLEMENTS

How You and Your Client Benefit from Both Sides of the Life Insurance Settlement Coin

BY LISA REHBURG with BRIAN J. CLARK

LISA REHBURG

By now, you have heard me say that 500,000 seniors a year will lapse their life insurance policies, walking away with little or nothing. You may also already know that life insurance policies can be sold through a life insurance settlement. But, did you know there are actually two ways that you can help your clients and potential clients with life insurance settlements? Let's talk about them both.

The first side of the life insurance settlement coin is what is briefly outlined above. Your clients may have unwanted, unneeded or unaffordable life insurance policies and may not know what to do with them. So many times, the only option they think they have is to lapse or surrender the policy. Not true!

You can help your clients by introducing them to the concept of a life insurance settlement. A life insurance settlement is simply a financial transaction. A buyer pays a client a lump sum of cash. In turn, the buyer will become the new owner of the policy, pay the premiums and become the beneficiary.

A client may wish to consider selling their policy when the policy no longer serves the purpose for which it was purchased. Perhaps the house is now paid off, a spouse has passed away, the kids are gone, a business has been sold. Or, perhaps the policy has just gotten too expensive to maintain, or the premiums do not fit into a retirement budget. Or, sometimes, clients may just want to repurpose a policy to make their life more comfortable, like being able to afford assisted living, home care, memory care, or help them age in place. Whatever the reason, and there are obviously 500,000 different reasons, a life insurance settlement can make sense.

The good news is that you do not need to be the writing agent on a client's life insurance policy, or even write life insurance. These clients could be your Medicare, small group, long-term care or individual clients, for example. And, perhaps it is not your client, but your client's parents or grandparents that have policies, or even one of your family members. We have helped some insurance agents sell their

own policies. The bottom line is the opportunity is endless, especially since the population of seniors in the United States is set to grow to 70 million by 2030.

Remember, all different types of policies can be sold, including term policies. On average, selling a policy generates 3 to 5 times cash surrender value. And, the life insurance settlement market has been legal since 1911 and is highly regulated by Departments of Insurance across the country. Think about your client's life insurance policy as an asset that they own (because it is), like their car or their house. Would you want your client to give away their house, and walk away from it? Of course not.

The best news is — your clients will thank you. It is a “win” for them because they are getting more money for this asset than they would have if they have lapsed it or surrendered it. It is a “win” for you in the form of commission from the sale, but also an opportunity for additional product sales once your client receives the money. Annuities anyone? Long-term care insurance? You get the idea.

But, that is only one side of the life insurance settlements coin. To make the life insurance settlements market work, there have to be buyers. When there is a supply of policies (i.e. 500,000 seniors a year), there has to be a demand for someone to buy them. Who are these buyers? Why would they want to buy a life insurance policy? And what does this mean for you and your clients? I am turning the conversation about the second side of the life insurance settlement coin over to Brian Clark, an expert on the investment side. Take it away, Brian.

BRIAN J. CLARK:

Thank you, Lisa! Now that you know all about how you may be able to help people extract significant value from an unwanted, unneeded or unaffordable life insurance policy, let's look at how you can help other clients add some true diversification to their investment portfolios. I focus on helping agents assist their clients where appropriate to invest in this most unique asset class known as life insurance settlements.

The reasons why this type of investment can make sense in one's portfolio are many and the benefits potentially quite significant. And, while there are risks to be aware of, if done properly, owning life insurance settlements as an investment can improve one's investment portfolio. Historically, life settlements have been used primarily only by large investors, such as Warren Buffett, Blackstone and other institutional investors like hedge funds, national pension funds and endowments. Here in California, however, there is unique legislation that allows you to offer this investment to financially qualified California individual investors using only your life license!

Back in the year 2000, legislators in Sacramento passed CA Senate Bill 1837, which established an exemption in the state securities law and regulates life insurance settlement investments. The subsequent law allows agents with a valid CA life license to offer this investment to California individual investors who have a minimum net worth of \$250,000 excluding the value of their home, cars and home furnishings. That means a large percentage of your clients could potentially qualify. You are in an excellent position to add significant revenues to your practice as you help these clients invest in life insurance settlements in their investment portfolios to add true diversification that doesn't sacrifice performance potential. If appropriate for the client, they may even elect to use IRA or Roth IRA funds to make the investment.

When you think about it, many clients have their investment portfolios invested in what I like to call, "the usual suspects" — i.e. stocks, bonds, real estate, cash, annuities, life insurance and maybe a few other things like precious metals, commodities, currencies or even crypto these days. But at certain times, the performance of most of those things can influence each other, possibly in a negative way at a time that is less than ideal, like shortly before or after retirement. An investment in life insurance settlements is uncorrelated to any other investment they may hold, leading to an increase in the level of diversification in their portfolios. In addition to this lack of correlation, there are a few other key reasons why the big, smart players like Mr. Buffett have utilized life settlement investments in their portfolios.

The payouts from life settlement investments come from some of the largest, oldest and strongest companies in the world: namely, U.S. highly rated life insurance companies. You probably wouldn't be in the business that you are if you weren't confident in the claims-paying abilities of these entities. Also, the payouts are known and are not a matter of if, but when. Not many asset classes can make these claims. Finally, what about the performance of life insurance settlements as an investment? In 2013, the London Business School published a decade-long empirical study examining the expected performance of a very large portfolio of life settlements. The portfolio held over 9,000 policies worth more than \$24 billion. The study concluded an expected average annual performance of 12.5% per

year. The conclusion of the study was that the asset class of life settlements can deliver stock-market-like performance without the volatility or risk that is inherent with stock investing.

An individual's actual performance from a life settlement investment may vary significantly. There are risks, such as longevity and liquidity risks among others. However, all of the above reasons should encourage you to take a deeper look into this unique and lucrative opportunity to assist clients with their retirement planning. Find a trusted partner with knowledge and experience; do your due diligence and get started today, because the environment we find ourselves in may result in the next 12 years in the primary markets not being as smooth as the last 12. An investment that is insulated from market turmoil may prove quite valuable to your clients' portfolios.

You now have a better understanding of both sides of the life settlement coin: how you can help clients sell an unwanted, unneeded or unaffordable life insurance policy AND how to help other clients potentially profit from life settlement investments, either with a cash investment or an IRA or Roth IRA investment. You will be fairly compensated for assisting clients with either or both sides of this unique offshoot of the life insurance business! **CB**



BRIAN J. CLARK is the CEO of Alternative Strategies Resource Partners. Brian has more than 20 years of experience helping agents and advisors with solutions that assist their clients in getting to and through retirement in a more comfortable and efficient manner.

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