Five Common Mistakes That Devalue Your Life Settlement Transaction

Noam S. Weiss

Like all markets, the life settlement market continues to evolve. These market developments, both major and minor, frequently have repercussions across the various dimensions of a life settlement transaction. One thing that has not changed: these transactions can be complex and time-consuming.

Whether your estate plan, your professional practice, or simply your efforts depend on it, one thing we certainly can agree on: maximizing the life settlement offers received from providers is paramount to making these transactions work. After all, the whole objective is to find the market value for a life insurance policy. However, simply having the best offers is not enough. Offers can expire and the real goal is not to get a number but rather to put money in the hands of the policyowner. The structure and execution of a deal can make an enormous difference in not only the magnitude of these offers, but the probability of "if" and "when" they will close. Consistently, these deals still take months to set up and weeks to close and that is when things run without complications. With that in mind, we offer you five common mistakes that devalue your life settlement transaction.

Mistake #1: Mismanaging the Timing of a Deal

Experience tells us that a life settlement transaction does not happen in a vacuum. After all, by definition, the need for a life settlement transaction is most often the effect of some other change in the policyowner's circumstances. The sale of a business, a major change in portfolio size, and health changes are common impetuses for researching a life settlement. These initiating factors often start many dominos moving and their coordination should be managed to synchronize the sequence of events.

The timing of a deal is important on the buy-side for other reasons as well. Life settlement providers, the entities who make offers and purchase policies, prefer to buy cases that will sell quickly. There are many reasons for this: most importantly the providers are in the business of managing capital and do not want to tie up funds on a deal that is not going to close. Preferably, they want to assist clients and place funds on cases that move forward, reducing the time costs of their money.

Mistake #2: Failing to Set Realistic Expectations

In life settlements, as in life, expectations

continued on page 6

Five Common Mistakes

continued from page 5

can change everything. Properly set expectations can provide the perspective and emotional distance needed to make sound decisions.

By beginning that process early, it will be easier to evaluate any life settlement offer properly. When you start to consider factors such as sunk costs, opportunity costs, tax implications, and replacement products, new opportunities and challenges will present themselves. Unfortunately, expectations of both the time frame and range of offers are vital to properly executing a life settlement.

One specific trap many clients fall into is thinking that if a policy is worth X today, it will be worth something more than X in the future. Regrettably, this usually is not the case because of the way life expectancy underwriting works. Given time, many health issues become less of a mortality factor. Furthermore, the access to funds at any given time can greatly affect the pricing of a life settlement offer.

Mistake #3: Failing to Keep Premium Payments Current

Premium payments are the responsibility of the policyowner until the time that ownership has been changed. Moreover, many insurance carriers will not issue illustrations, verify coverages, or change ownership if the premiums are not paid and a policy slips into a grace period. This means that no matter what stage a deal is in, it is vital that all premiums remain current. Failure to do so can delay and even kill life settlement transactions. Worse yet, failure to pay the premiums can reduce the value of a policy or even lapse a policy during the process, eliminating any value that existed.

Another reason to avoid grace periods and/or the potential lapsing of a policy stems from the requirement that policies sold on the life settlement market be outside of the carrier's contestability and suicide period. This is the time frame the carrier has to appeal or dispute a death claim. The added risk associated with owning a policy during this period is too great and possibly even outside of the law in some states. Therefore, we must be aware of a carrier's right to reinstate that contestability and suicide period should a policy lapse or otherwise go unpaid. This right varies

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continued from page 1

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widely from carrier to carrier and product to product, but can be a lethal occurrence for any life settlement transaction.

Mistake #4: Avoiding Disclosure

The underwriting process for a life settlement offer is designed to uncover key facts about any policy. Given the market's current slant toward a buyer's market, most legitimate life settlement providers will simply discard or under-price policies that do not present themselves as clean business. Was the policy premium financed in any fashion? Is there a policy loan? What about collateral assignment? Has the ownership ever changed hands? These are just some of the questions that need to be accurately represented on a life settlement application. With disclosure, these policies can still garner offers; without it they will not.

Mistake #5: Failing to Use a Broker

With all the complications and nuances of a life settlement transaction, the best way to avoid mistakes is to deploy an experienced broker on your behalf. Brokers represent the fiduciary interest of the policyowner in a life settlement transaction, not the money source (as life settlement providers do).

Licensed brokers should cover the entire market, collecting multiple offers from multiple sources. This leverage drives policy pricing up. The oversight offered by the states that license brokers include many protections for the policyowner: true client representation, institutionalized capital, escrow accounts, and rescission periods. Most important, an experienced broker will have the insight to understand and prevent these and other mistakes. ●

Noam S. Weiss is managing partner of Settlement Benefits Association, a full-service life settlement brokerage in Tampa, Fla. Through a network of licensed funding groups, the company helps policyholders and their trusted financial professionals understand and maximize the value of life insurance products. Settlement Benefits Association accepts applications for policies of at least $25,000 and has received the approval of the National Ethics Bureau, an organization of approved financial advisers who have maintained an exemplary record of business ethics. Weiss may be reached toll-free at 888-287-1437 or by email at Noam@SettlementBenefits.com, *or visit* www.SettlementBenefits.com.

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