



## Five Insider Tips to Obtain the Best Life Settlement Offers

Noam S. Weiss

Over the past few years, the life settlement industry has grown and matured tremendously. By some estimates, over \$12 billion of life insurance was transacted during 2007. This growth has generated many positive changes in the industry, including increased legislation, the utilization of technology and the development of best practices. However, this growth has also attracted many new entrants into the marketplace. This increasing pool of industry participants has muddied the waters for many insurance producers when it comes time to decide whom to partner with. Similar-sounding companies peddling comparable propositions can create the appearance that everybody is the same. However, that appearance is misleading. Many of these new entrants lack the experience to handle the many intricacies and stumbling points within the process of a life settlement.

Some of these challenges can be obvious, but many are subtle and only affect specific circumstances. Sometimes, even the most fundamental aspects of the industry can be confusing. For instance, the difference between a life settlement provider (the entity that specializes in purchasing life insurance policies) and a life settlement broker (the entity representing the policy owner that solicits the best possible offers) is often misunderstood. With this business environment in mind, we offer you five insider tips to obtaining the best life settlement offers.

### **Tip #1: It's All about Information—Both Quality and Quantity Count**

Information can make or break a life settlement case. Furthermore, it is not just the information that you offer, but also the information you are offered.

When beginning the process of a life settlement case, the sometimes tedious work of providing correct information is vital. Make sure the application is complete. Is the handwriting legible? Supply the policy or annual statement if possible. List all relevant doctors for each insured. Has your client seen his/her physician within the past six months? Some life expectancy underwriters will not formulate a life expectancy if there is no information from the past 12 months. Each of these data points can be the difference in the underwriting of a case. On the other hand, what information are you receiving? What expectations do you have? If necessary, do you have a plan for replacement coverage? Is there a new estate plan, long-term-care insurance or even an annuity? Sharing information will help you get higher offers for your life settlement cases.

### **Tip #2: Illustrate the Case Properly to Paint the Picture That Providers Want to See**

It is important to paint the best picture when presenting illustrations to a life settlement provider. Remember, they want to see a low ratio of premium outlay versus death benefit while keeping the policy in force to maturity.

Life settlement providers always require illustrations to maturity, with a level death benefit and a level premium. If the policy matures at age 95, find out if there is a maturity extension rider available. After the life expectancy is completed, some providers will make additional requests for illustrations run at life expectancy plus two years. For example, if the life expectancy is 10 years, they would like to see a 12 year illustration run, lapsing in year 13 with the cash closest to \$1. This type of illustration can be run at current nonguaranteed rates.

Another common scenario occurs when policies have high cash values. For instance, a well funded \$500,000 policy might have \$150,000 in cash value. This client might have a 12-15 year life expectancy, making it very unlikely any provider will be able to offer in excess of the cash value. So, order an illustration requesting an immediate cash withdrawal in year one, reducing the cash from \$150,000 to \$10,000. Then, reduce the death benefit from \$500,000 to \$400,000 to offset the increased premiums and run the illustration level to maturity. Now you have a \$400,000 policy with \$10,000 in cash value. This is a much more attractive option for providers. Of course, this would be done for illustrative purposes only; no changes need to be made to the actual policy to paint this picture.

**Tip #3: Disclose Any Form of Premium Financing**

Legitimate premium financing can often be a useful estate planning tool. However, many providers have strict rules as to what types of financing they will consider for purchase.

Avoid disappointment and conflict by disclosing any form of premium financing upfront. While this will eliminate many providers who will not accept these cases, this knowledge can reduce painful headaches down the road. The provider will eventually discover these arrangements during the due diligence phase of a life settlement closing.

In the majority of cases, the client will need to pay off the entire loan plus all fees prior to a life settlement. This can often be accomplished through a bridge loan; however, this must be done outside of the life settlement transaction. Heeding these precautions

will help clear the premium financing hurdle during a life settlement.

**Tip #4: Where Is This Policy Domiciled?**

Ownership interests in life insurance policies can become complex. Nevertheless, understanding the original situs of an ownership trust is vital to securing the best life settlement offer.

*continued on page 6*

## Upcoming Society CE Programs

**Mark Your Calendar!**

**May 21, 2008** (1:00—3:15 p.m. EDT)

**May 22, 2008** (9:00—11:15 a.m. EDT))

**Video Training Conference**

*The Changing Face of Estate Planning:*

*As Your Clients' Lives Change, So Should Their Estate Plans*

**Moderator:** Ben G. Baldwin, Jr., MSFS, MSM, CLU, ChFC, CFP®, AEP ,

**Panel of Experts:** Lawrence Brody, Esq. ,

Jo Ann Engelhardt,

Terence B. Stanaland, JD, ChFC, CPA

**Note:** The Video Training Conferences are developed for use by Society Chapters. Check with your local Chapter regarding its plans to offer this program and for registration information. Participating Chapters can offer the program on either of the above dates or on a date and time of their own choosing.

For more information about Society programs, visit **[www.financialpro.org](http://www.financialpro.org)**. To register for any of the programs, contact Member Services, Monday-Friday, 9:00 a.m.—4:30 p.m. (ET); Tel: (800) 392-6900, Fax: (610) 527-1499, E-mail: [custserv@financialpro.org](mailto:custserv@financialpro.org).



## Five Insider Tips

*continued from page 5*

Many states require licensing for life settlement brokers and life settlement providers. These laws are continually developing due to the relatively short history of the life settlement industry. This may restrict or preclude these entities from working in certain states; and no professional wants to work with an unlicensed provider who is not monitored by your state. Therefore, most providers cannot work all cases. It is important to uncover the situs of ownership and resident status of the policy's insureds. This extra step will eliminate many compliance issues down the road, as well as helping to set the appropriate expectations for everyone involved.

### **Tip #5: If You Want Professional Service, Deploy a Professional Broker.**

Within this industry, producers often have two choices: attempt to shop cases directly with providers or utilize a professional broker to canvas the marketplace. These specialists (brokers and providers) can often be confused with each other, but the difference is vital to understanding how to get the best life settlement offers.

Life settlement providers are entities that specialize in the purchasing of life insurance policies. They normally represent the financing entities and attempt to purchase policies with minimum costs to improve returns. In most states, providers are licensed by the state's department of insurance. However, most providers do not work in all states. In fact, the list can vary widely. For example, in Florida, there are currently only 11 licensed providers whereas in Pennsylvania there are currently 19. Still, other states have no licensing at all.

Most of these providers do work directly

with policyowners or their representatives (such as an insurance producer, accountant, or attorney). However, each provider has its own set of internal regulations, producer agreements, purchasing parameters, and negotiating tactics. Keeping track of all this information can become an administrative headache. The worst mistake a producer can make is failing to submit a case to a provider who can purchase it.

Fortunately, life settlement brokers are the professionals who step in to solve this conflict. A professional broker represents the policyowner in the transaction, and can effectively identify and negotiate with all applicable providers on each individual case. Just like any other line of work, professional brokers carefully learn and study every aspect of this task. A professional broker should provide high quality service and understand difficult assignments. Given the unique nature of each life settlement transaction, experience is often the most important asset a broker can possess. Above all, find someone you are comfortable working with; someone whom you trust to diligently explore your cases and someone who will provide feedback and updates as the process unfolds. ●

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*Noam S. Weiss is managing partner of Settlement Benefits Association—a full-service life settlement brokerage in Tampa, Florida. Through a network of licensed providers, the company helps policyholders and their financial professionals understand and maximize the value of life insurance. He can be reached toll-free at 888-255-0444 or via the Web at [www.SettlementBenefits.com](http://www.SettlementBenefits.com).*