

# Life Settlements in Boom Times

Buoyed by new-found respectability, Life Settlements are on a roll and a broad spectrum of financial advisors are getting on the bandwagon.

Transactions – measured in terms of death benefits that changed hands – more than doubled last year alone to about \$4.5 billion, according to industry studies.

Insurance-based financial advisors reportedly account for some 70% of the transactions, but an increasing number of financial planners, CPAs, attorneys and trust officers are getting into the business.

*The National Underwriter* tells of one financial planner who requested bids on a 10-year level term policy that the owner, a 75-year-old client, was otherwise prepared to exchange for a new 10-year term contract. The planner got an offer of \$960,000, then \$1.2 million. By the time the bidding was over, the client wound up with \$2.8 million.

"The keys are packaging your product, putting it out for bid and

then doing some hard bargaining," said Greg Scharfeld of Florida-based Trinity Financial Services, a full service life settlement broker who does all this for financial advisors and their clients. (See advertisement below.) Scharfeld is a Long Island native.

The industry's growth stems, in part, from its new-found legitimacy. Respectable life settlement companies have distanced themselves from the questionable practices of the 90s.

"Five years ago, life settlements were controversial. Now they're mainstream," said Scharfeld.

The industry's improved image has led to a relaxing of regulatory controls. The National Association of Insurance Commissioners have changed their model regulation to do away with dual licensing requirements.

Education initiatives are prompting more financial advisors to incorporate senior settlements into their practices. Several leading funders run nationwide CE programs and The American

College includes viatical and life settlements in its CLU curriculum.

Advisors need to understand the pros and cons of life settlements. Many life insurance policies under consideration for sale should be kept because of tax and estate liquidity implications.

But there are countless thousands of cases where a settlement could make sense; e.g., a policy has outlived its usefulness, the client no longer has an insurable interest or wants to pay the premiums and is considering allowing the policy to lapse.

"We're looking for cases where the reason for purchasing the policy no longer exists, Scharfeld said. "A policy should not be sold just for the sake of selling it."

The client may want to exchange the policy for a limited paid-up policy or one with an irrevocable beneficiary. If the proposed settlement involves a permanent life insurance policy, securing more than the cash surrender value will guide the decision.



## A LIFE SETTLEMENT

creates a financial opportunity  
for both you and your client.

Peace of mind.

That's what you'll have when you receive  
the best offer for your client's policy.

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# 9 Situations for Life Settlements

All kinds of financial service professionals – agents/brokers, attorneys, CPAs, estate and financial planners – are now getting involved in life settlements. (See advertisement below.)

A life settlement is the sale of an insurance policy for more than its cash value to an investor who keeps the policy alive until the insured dies.

Given that a life insurance policy is such a valuable document, why would anyone want to sell it? Here are nine situations under which a life settlement may appropriately be considered:

1. The insured is age 70 or older. This is the fastest-growing segment of the U.S. population.
2. The policy is lapsing or being surrendered because it's no longer needed for a variety of reasons. Paying the premiums has become a nuisance.

3. Another insurance or financial product better meets the need for which the policy was intended and, for whatever reason, the existing policy cannot be rolled into it. Perhaps an individual policy is being replaced with survivorship insurance.
4. The insured has outlived the beneficiaries.
5. For estate tax planning reasons, it no longer makes sense for the policy to pay out as planned. For example, the estate no longer needs insurance for liquidity.
6. The policyholder can no longer pay the premiums and needs relief from them. Example: a charitable organization which owns a donated policy.
7. The owner needs cash now, such as for a medical emergency, to assist a child or grand-

child or to supplement retirement income. Also, there's been a change in the health status of the insured.

8. A company's key executive is retiring, thus ending the need to maintain insurance on his or her life.
9. A business is going public, failing or being dissolved – thus eliminating the need for an existing buy-sell arrangement backed with insurance.

## **Not the same as Viaticals.**

Although similar, life settlements are different from viatical settlements, which typically involve the sale of a policy for someone who is terminally ill. Although the policy is well-funded, the person can't get the benefits right now – when they are needed. So the policy is sold to someone for an immediate cash payment.



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