

get a secondary opinionSM:

how life settlements & policy valuations impact estate & business planning

By Jason T. Mendelsohn | Ashar Group
Secondary Market & Valuation SpecialistsSM

The Secondary Market for Life Insurance

The Life Settlement market has delivered more than \$5.6 billion over the cash surrender value to consumers.

Government Accountability Office Report -10-775

The Life Settlement market has delivered more than \$5.6 billion over the cash surrender value to consumers.

Most complex decisions in life require getting a second opinion. Assessing the needs and recommendations regarding the suitability of a client's life insurance plan is no different. The Secondary Market for Life Insurance has generated many options for consumers that are seeking alternatives to the traditional exit-strategies: lapse, surrender, or completing a 1035 exchange. Life insurance is an asset that may have considerably more value in the Secondary Market that can provide financial security or a method to fund long term care needs.

Our experienced team has created a predictable and systematic approach to uncovering the Secondary Market Value of life insurance and annuity assets. By employing proprietary analytics, current market insight, institutional funding relationships, and professional industry relationships, a policy owner can have a clear understanding of the current market value of their life insurance policy.

Prior to the credit crisis in 2008, the Secondary Market was growing at such a rapid pace that regulation was developed and enacted in over 40 states affecting 90% of the US population. The senior population continues to grow at staggering rates. According to Pew Research, "increasing numbers of seniors are relying on advisors to be their trusted resources and fiduciaries that will provide them with guidance towards decisions that impact their quality of life."

Today's market is comprised of sophisticated institutional buyers, including pension funds, private equity, reinsurers, municipalities, financial institutions, and hedge funds purchasing policies on senior clients who most often have age-related impairments and health issues. Transactions are highly transparent, involve regulation and oversight during contracting, and include multiple phases of due diligence that protect consumers' interests throughout the process.

Secondary Market Valuation Strategies - Determine Fair Market Value for Transfer or Planning Purposes

With a Secondary Market ValuationSM, [SMVSM,] advisors can finally provide the clarity and concise policy analysis clients demand with the simplicity, accuracy and trustworthy judgement with which to stake their reputation. Many feel there are outdated rules for determining the fair market value of a policy.

Ashar's unique blend of industry insight, carrier intelligence, proprietary underwriting formulas, integrates into the most valuable resource for valuing a policy.

The SMVSM can be a prudent and valuable solution in the following situations:

- Determining the fair market value of a contract
- Completing a business valuation - including Term insurance and annuities
- Transferring a policy from one entity to another
- Exiting a Split Dollar contract
- M&A or bankruptcy transactions - business insurance could have value
- Partner disputes and Buy/Sell agreements
- Marital disputes or funding carefor family members

When It Works It Works – Success Story for The Right-Fit Client

A life settlement is not always the best solution for a senior client, but when it is, there is no mistaking it. Please review the following:

Client	Cash Value	Secondary Market Value
Female 81 \$3,000,000 Universal Life <i>No longer needed as much coverage for planning purposes due to changes in the estate tax exclusion amount.</i>	\$48,000	\$1,100,000
Male 74 \$750,000 Term policy <i>Retiring and no longer needed "key-man" policy</i>	\$0	\$125,000

Want to see if your clients' policy qualifies?
Take our Policy Value Quiz at www.ashargroup.com/quiz/

What is the Ideal Policy for Most Buyers?

Over \$4.5 Billion of policies lapse annually on insured 70 and older.

Determining the transfer value provides attractive options for your clients:

- 1 All types of policies can be exchanged for a lump sum, including Term
- 2 Retain a portion of coverage and eliminate future premium payments
- 3 Convert a policy to fund Long-Term Care as a qualified Medicaid spend-down

continued >

continued

What is the Ideal Policy For Most Buyers?

Factors considered when calculating the value:

- 1 Premium costs and policy values
- 2 Insurance carrier rating and face amount
- 3 Health of the insured

The Life Settlement Option: A 100 Year Precedent

A life settlement is the sale or assignment of an existing life insurance policy to a third-party institutional investor for an immediate cash payment in excess of the cash surrender value. The new policy owner pays all premiums and receives the future benefit. Some investors may offer an alternative to a cash settlement, in which the client retains a portion of the death benefit, without paying any future premiums.

The Government Accountability Office found insureds that completed a life settlement received on average 7 times more than the cash surrender value.

Government Accountability Office Report -10-775

The basis for today's life settlement transaction stems from the 1911 court case where the United States Supreme Court ruled in *Grigsby v. Russell* (222 U.S. 149) that a life insurance policy becomes the personal private property of the owner following its issuance and may be assigned to any person at the owner's discretion.

Who Represents Whom in a Life Settlement Transaction?

willing buyer | willing seller

In the Secondary Market, there are two sides to a life settlement transaction: the seller (policy owner) and the buyer. The seller is represented by his or her advisors, which include the life settlement brokerage firm. Their objective is to represent the seller, by producing the most competitive offers while relying on best execution principles. Providers represent the purchaser, whose primary concern is receiving the highest rate of return. In most states, licenses are required to represent the sellers and buyers of policies. Many states require a minimum of a life insurance license as well as a separate and specific life settlement license when representing a policy owner.

Why Are Institutional Investors Attracted to this Asset Class?

During the financial meltdown, insurance carriers performed better than banks from a credit-risk perspective.

As the senior population continues to grow there are more sophisticated investors entering the Secondary Market. This asset class is not directly correlated to the equity markets. Pension funds and municipalities view life settlements as a method by which they can receive competitive returns while overcoming pension shortfalls. One example of this occurred in 2010 when the Oregon Investment Council (OIC) approved a proposal to commit \$100 million to Apollo Global Management to purchase a life settlement portfolio. OIC oversees investments for the Oregon state pension fund, and is just one of several public pension fund administrators pursuing investments in life settlements.

Summary and Next Steps

The decision to value a life insurance asset has become integral to the overall planning process. How can recommendations be made without exploring the unrealized asset that could be worth more to a client than their entire equity or real estate portfolio?

Integrating the Secondary Market ValuationSM (SMVSM) into mainstream planning can assist both advisors and their clients. The process is simple and efficient, with essentially no downside to the client besides taking the time to have their policy reviewed. In fact, many advisors feel that it's the prudent thing to do when protecting and growing the wealth of their clients.

A qualified Secondary Market partner can prescreen policies both medically and financially, saving advisors and clients' months of work. This is critical in setting the most accurate target offer that both the seller and buyers can agree upon. This approach strengthens advisor-client relationships and avoids entering a lengthy process that delivers unproductive results. In a market where many companies aren't able to provide the technical analytics that advisors and client require, and instead are essentially guessing at market values, our team provides a more sophisticated and reliable level of due diligence and accuracy.

To see if your client's policy qualifies, take our [Policy Value Quiz](http://www.ashargroup.com/quiz) at www.ashargroup.com/quiz

To learn more about the Secondary Market ValuationSM or to discuss a potential life settlement opportunity, please contact Gregory Freeman at Advisor Serve at 770.293.9545 or gfreeman@advisorserve.com.



we help premier advisors appraise, negotiate & monetize their client's life insurance & annuity assets