



Life Settlement – An Advanced TOLI Management Alternative

How can insurance trust value be maximized when a TOLI policy is under-performing, unsuitable, or unwanted? Three alternatives are available: surrender the policy for its cash surrender value, lapse the policy without value, or sell the policy into the Life Settlement market for its fair market value, an amount in excess of cash surrender value. Life Settlement should be considered whenever policy restructure is warranted and the insured is age 65 or older.

The Life Settlement market has introduced a new dimension to estate and financial planning, and enhanced the asset management options available to professional fiduciaries, advisors, and their senior clients. The emergence of this market redefines the liquidity and asset value characteristics of the life insurance asset class.

Life Settlement Process

Life Settlement refers to the sale of an in-force policy to a third-party purchaser for a cash payment to the seller/policyowner. The purchaser acquires policy ownership, becomes the beneficiary, and is solely responsible for future premium payments. The seller is not restricted in the use of proceeds.

Most Life Settlement purchasers are interested in buying life insurance policies with face amounts of \$250,000 or more when the insured has a life expectancy of 15 years or less and/or an unfavorable change in health status. The amount paid to the seller depends upon the insured's life expectancy, underwriting carrier, policy type, and premium cost to maintain the policy in-force.

To maximize the fair market value offer amount, a Request for Proposal should be submitted to established institutional purchasers. Following selection of the more attractive offer, the sale usually takes 4 to 6 weeks to close.

TOLI Restructure

Life Settlement provides an unanticipated source of lifetime liquidity that further enhances the life insurance trust's range of wealth management planning options. TOLI Trustees should consider Life Settlement in the following situations:

- **Policy Under-Performance:** Frequently in-force non-guaranteed death benefit policies are significantly under-performing their originally illustrated values and require a significant increase in scheduled premiums to sustain the policy to insured life expectancy. When such additional premium outlay is unavailable or otherwise unadvisable, trustees and beneficiaries should consider selling the policy and either purchasing a guaranteed death benefit policy or reinvesting the proceeds.
- **Trust Objectives Change:** Since an insurance trust usually spans a 10 to 50 year time horizon, frequently estate planning objectives, gifting capacity, tax laws, and life insurance policy types

change. When a policy is no longer suitable or wanted, trustees and beneficiaries should consider selling the policy and either purchasing a suitable policy or reinvesting the proceeds.

Sample Life Settlement Transactions

- A \$4,000,000 policy with a \$500,000 cash surrender value insured an age 89 male. The policy was no longer needed and, hence, sold for \$850,000, which represents 21% of the death benefit and \$350,000 more than the cash surrender value.
- A \$5,000,000 policy with a \$2,500 cash surrender value insured an age 82 female. Following a lapse notice, the policy was sold for \$900,000, which represents 18% of the death benefit and \$898,000 more than the cash surrender value.
- A \$1,000,000 **term** insurance policy with **no** cash surrender value insured an age 72 male. The policy was no longer needed and, hence, sold for \$110,500, which represents 11% of the death benefit, ***plus an unexpected \$110,500 cash payment.***

Note: More detailed information concerning Life Settlement is available in our **Estate Planning** magazine and **Tax Facts Ethics** articles posted on our website.