A Retired Business Owner Shares His Views on Life Settlements

by JEFF HALLMAN

"I borrowed a lot of money over the years to finance five different businesses. My debt exposure made it necessary to purchase large insurance policies to protect my family from bankruptcy in the event of my death," said Smith (not his real name). "It's pointless to continue paying large premiums on policies that have become obsolete, now that my children are grown and doing well financially."

At age 85 and with a mind still sharp as a tack, the retired entrepreneur welcomed the opportunity to be interviewed following the successful completion of a life settlement transaction involving the secondary market sale of nearly $11.6 million in life insurance coverage. Smith was motivated to share his story in hopes it would inform other seniors facing similar challenges with sizable life insurance policies they no longer need for estate planning purposes.

During the interview, Smith noted the peace of mind he now enjoys as a result of a life settlement that provided him with premium relief, as well as $2 million in retained death benefit coverage and an immediate cash payment exceeding $240,000. He looks back with pride on having built a car and truck dealership that has been recognized as one of the country's top performing automobile dealerships. As he enjoys the view from his ocean front home in Florida, he attributes his entrepreneurial spirit and a strong work ethic for enabling him to amass an estate valued at more than $12 million today.

But he also notes that, while his business acumen served him well over the years, he credits his estate planning attorney for having guided him in pursuing a life settlement for three policies that had outlived their original purposes. "My attorney really knows his stuff," Smith said.

Smith's story began several months ago when his estate attorney consulted a secondary market advisory firm regarding three policies totaling more than $11.5 million that were no longer needed for estate planning purposes. Having previously facilitated life settlement cases, the attorney outlined the objectives. Foremost was Smith's desire for premium relief. Second, it was to retain no less than $1.5 million of paid up insurance coverage. And third, it was to generally optimize the fair market value of his client's insurance assets in the form of a cash payment beyond what he would receive from the carrier for surrendering the policies.

After a preliminary review of Smith's health and a review of the policy illustrations for the three life insurance contracts, the secondary market brokerage firm determined that, based on Smith's age and current health, he fit the general criteria secondary market investors typically require for purchasing policies.

To commence the bidding process, the three policies were presented by the broker to 11 institutional funders. The largest policy was a $10 million policy owned by a corporation established by Smith for business expansion and succession purposes. Now that Smith's companies were operating successfully and debt exposure was no longer an issue, a life settlement with the highest retained death benefit option made the most sense.

The second policy, valued at $1.5 million, was purchased by the auto dealership as a key man policy when Smith and his business partner initially launched the car dealership. Before selling his business interest to his partner and retiring, Smith transferred ownership of the key man policy to a family trust.

The third policy, valued at $60,000, was a universal life policy initially purchased many years ago for $20,000 when Smith's first child was born. The policy's death benefit coverage and the cash build-up grew over the years.

The brokering process was met with a number of challenges. Achieving the client's objectives to receive both a cash offer along with a retained death benefit required shopping the case to multiple secondary market providers, each of whom has its own unique funding requirements. The bidding process was further complicated by the fact that most providers are accustomed to purchasing policies valued at $250,000 or more, and most are unwilling to purchase a small policy valued at only $60,000.

During the brokering process, the field of funders was narrowed down to several. The brokerage firm proceeded to negotiate a life settlement package – including the sale of the $60,000 policy – that achieved all three of the client's stated objectives.

Free from future premiums and with cash in his pocket, Smith was delighted with the outcome, as was his family. "My daughter is an advisor with a well-known financial services firm and holds five professional licenses, including one for life insurance. She confirmed that my attorney had steered me in the right direction as it relates to a life settlement, and I'm glad he did. My daughter is a very smart woman!"

Smith's estate planning attorney agrees with his client that sharing his life settlement success story could benefit others who may be struggling

"It's important to work with an experienced life settlement broker who will aggressively shop the policy among multiple funders in the secondary market to receive the fair market value."

to pay large premiums for troubled policies they no longer need. Given the recent cost of insurance increases by a number of major carriers for universal life policies, many policy owners are motivated to explore all their options in order to avoid lapsing or surrendering their policies for the small cash surrender value in the policy. A life settlement often can be the most advantageous solution, considering the alternatives. But as Smith's attorney knows, it's important to work with an experienced life settlement broker who will aggressively shop the policy among multiple funders in the secondary market to receive the fair market value. ★

Jeff Hallman is co-founder and managing partner of Asset Life Settlements, LLC, a secondary market brokerage firm. He is managing partner of Asset Life Settlements, LLC. With more than 15 years of progressively responsible experience since the inception of the industry, Jeff has earned a reputation among his peers as one of the foremost professionals in his field.