LifeHealthPRO
Feb 28, 2017
FILED UNDER: YOUR PRACTICE, SALES MARKETING

Best practices for life settlement transactions

An experienced advisor shares insight on how to gain a nod of approval from clients' estate attorneys and tax advisors when selling trust-owned life insurance policies.

The Lead

BY JEFF HALLMAN

Frequent communication is one key to earning client trust. (Photo: iStock)

Most life settlements are facilitated primarily by insurance advisors with the help of a life settlement broker, but selling a trust-owned life insurance policy (ILIT) in the secondary market often requires a prior nod of approval from the client's estate planning attorney and tax advisor.

That's why gaining the confidence of estate attorneys and CPAs is an essential step for insurance advisors who want to achieve the best possible outcomes for clients selling their policies in the secondary market.

So how do insurance advisors engender trust and build rapport with estate and tax planning professionals — some of whom have a pivotal role in deciding whether a life settlement is the best course of action for their clients?

One advisor's "secret sauce"

JEFF HALLMAN

To learn the answer to that question, I turned to an insurance advisor with whom I had just completed two life settlement transactions involving trust-owned life insurance (ILIT) policies. The advisor, whom I will call John Stone in order to protect his clients' privacy, has more than 45 years of experience in the insurance and financial services industries, and is widely regarded for his expertise in advanced planning strategies.

> *"Gaining the confidence of estate attorneys and CPAs is an essential step for insurance advisors who want to achieve the best possible outcomes for clients selling policies no longer needed for estate planning purposes."*

During my recent interview with Stone, he explained that his clients are typically successful business executives and retired business owners, many of whom purchased large life insurance

To illustrate best practices for agents, this experienced advisor highlights of a life settlement transaction he spearheaded for a 77-year-old retired medical professional. (Photo: iStock)

policies years ago when the threshold for the estate tax exemption was much lower.

The combination of Stone's professional credentials (ChFC®, CLU®, CAP®), his hands-on expertise with high-end clients, and the relationships he has built with estate planning attorneys and CPAs, earned him wide recognition as one of the most knowledgeable professionals in his field. When he recommends a life settlement as the best solution for unwanted policies, his clients have complete faith in his judgment.

"Frequent communication and setting reasonable expectations are essential to building trust" Stone said. "I make it a priority to be transparent with my clients and their estate planning advisors in order to provide a clear understanding of all the options for troubled life insurance policies. Engaging 'buy-in' from the client's other advisors at the outset of any financial services transaction is key to building valuable collaborative relationships."

Under-promise and over-deliver

To help illustrate what he considers to be best practices for agents, Stone shared the highlights of a life settlement transaction that he spearheaded for Client A, a 77-year-old retired medical professional. The case involved a $1 million secondary guarantee policy owned by Client A's Irrevocable Life Insurance Trust (ILIT). Stone had been conducting annual reviews of the policy's performance, and had advised the client going back seven years that the policy would be in trouble a few years down the road. Subsequent to that time, the premiums had grown to nearly four percent a year, and the cash intended to fund future premium payments was becoming depleted. The time had come to take action.

Following a recent policy analysis, Stone noted that the cash in the policy was down to less than $1,000. He outlined two options for the client:

1. Make the annual premium of $37,000 to keep the policy in force; or
2. Pursue a life settlement.

Considering the fact that the policy was no longer needed for estate tax purposes, Stone recommended to the client and to the estate attorney that a life settlement appeared to be the most sensible option. Trusting Stone's judgment, the client agreed without hesitation.

Upon receiving Client A's life settlement application, Asset Life Settlements submitted the case to multiple institutional funders licensed to operate in the state where the trust was located. Offers were received from three separate funders, at which time Asset Life Settlements commenced the secondary market arbitrage in pursuit of the highest offer (fair market value). As the bidding progressed, the value of the offers increased several times during a period of nine days.

During the nine-day bidding period, Stone maintained frequent communication with the client to report on the value of the offers coming in. Rather than quote the highest offer as of that day, Stone was cautious to present the client with the lowest-case scenario in the event one of the higher offers fell through.

"I believe in setting realistic expectations for my clients," he said. "My approach in situations like this is to 'under-promise and over-deliver.'"

At the end of the bidding cycle when the highest offer was official, Stone informed his client that the policy would be sold for $180,000. "My client was simply stunned by the fact that he could receive such a large settlement for an unwanted insurance policy thought to be worthless," said Stone.

The client's attorney also commended Stone for his expertise in crafting the best possible estate planning solution for the troubled ILIT policy. At the conclusion of the life settlement transaction, the attorney terminated the trust and the cash from the settlement was used to pay the annual premiums for a separate $1 million life insurance policy to benefit the insured's heirs. All stakeholders were satisfied with the outcome.

Earn trust by maintaining frequent communication

Stone's second life settlement transaction involved Client B, an 88-year-old retired physician with a $600,000 trust-owned life insurance policy. Unfortunately, the policy had not been monitored over the years and was about to lapse. When the estate attorney received a letter that the policy was in trouble, Stone was asked by Client B to evaluate the options and make a recommendation most suited to the client's objectives.

Upon learning that the insured's children were grown and the policy was no longer needed for its original purpose, Stone considered the options and then presented three scenarios to the client and the attorney:

1. Keep the policy in force to age 100 — requiring approximately $54,000 in annual premiums;
2. Let the policy lapse; or
3. Pursue a life settlement — requiring a $3,200 premium payment to keep the contract in force until the policy was sold.

In Stone's judgment, the life settlement offered the most benefit to the client's estate. The client agreed.

Asset Life Settlements submitted the case to multiple institutional funders licensed to operate in the state where the trust was located. Offers were received from three separate funders, at which time Asset Life Settlements commenced the secondary market arbitrage in pursuit of the policy's fair market value. As the bidding progressed, the value of the settlement offers increased four times over a period of 10 days.

Once again, Stone kept his client informed each step of the way. He wanted to set reasonable expectations for the client by quoting the lowest possible offer until the final (highest) offer came in at $177,000. At the conclusion of the bidding process, the difference between the lowest offer and the highest offer was $75,000. The client was so overwhelmed with the favorable outcome that he offered to pay Stone an additional fee beyond the agent's standard commission for a life settlement. Stone was heartened by the client's gratitude but respectfully declined his offer.

Client B's estate attorney also praised Stone for his expertise and his handling of the life settlement transaction. Shortly afterwards, the attorney contacted Stone to refer to him yet another client who was interested in pursuing a life settlement for his troubled life insurance policy.

> ***"Developing good communication practices and setting reasonable expectations with clients and members of their estate planning team is key to gaining trust – as well as generating new client referrals."***

As Stone said at the conclusion of our interview, "Developing good communication practices and setting reasonable expectations with clients and members of their estate planning team is key to gaining trust — as well as generating new client referrals."

__Jeff Hallman__ is co-founder and managing partner of Asset Life Settlements, LLC, a secondary market brokerage and advisory firm. With more than 15 years of experience as a life settlement broker, Jeff has earned a reputation among industry professionals as one of the most skilled negotiators in the country. Having closed more than $2 billion in policy face value, Jeff is known for his unique ability to leverage his close working relationships with top institutional funding sources in pursuit of the highest offer for each case that crosses his desk.

Asset Life Settlements, LLC
SECONDARY MARKET ADVISORS