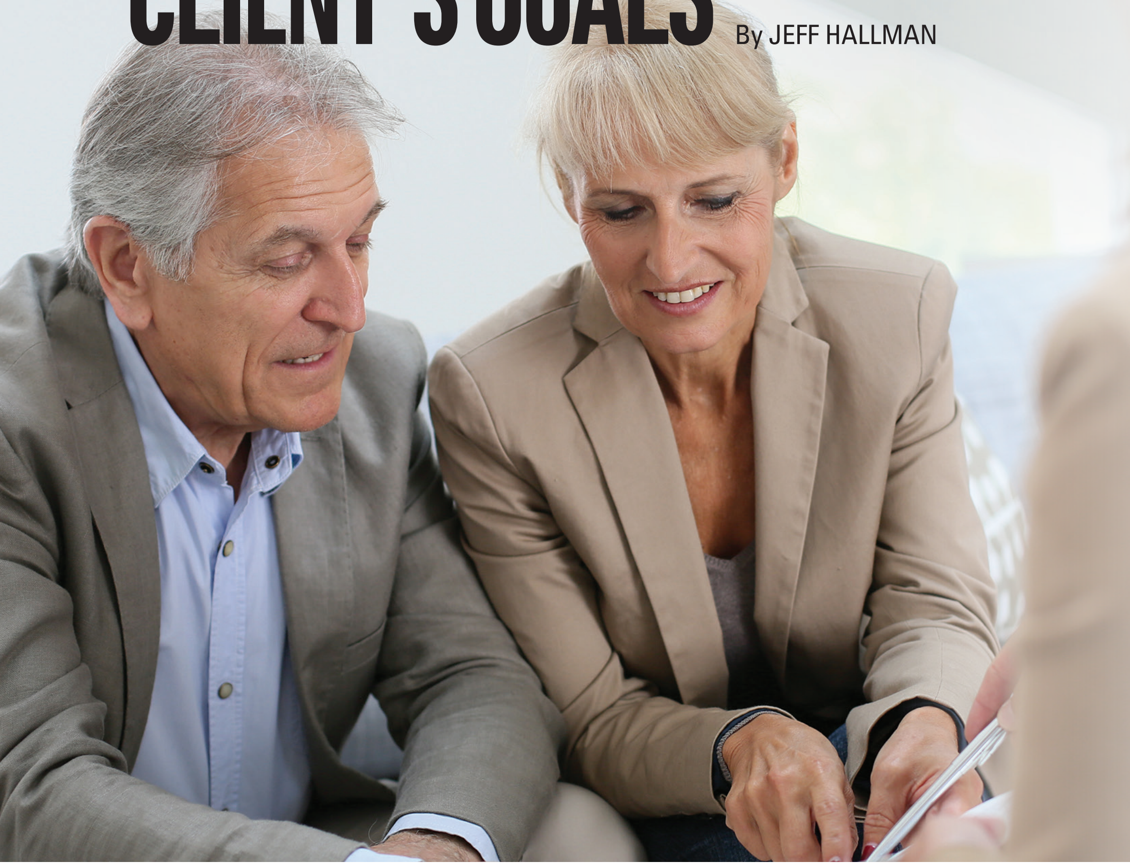
CASE STUDY:
CPA, ADVISER OPT FOR A LIFE SETTLEMENT TO ACHIEVE CLIENT'S GOALS

By JEFF HALLMAN



When high-net-worth senior clients pose unique challenges that require professional expertise from several members of the estate planning team, arriving at a consensus in terms of the most favorable solution may be challenging. Factors to consider involve liquidity, cash flow during retirement, tax planning and legacy objectives.

But in this case, the key members of the client's advisory team required no arm-twisting and they all viewed a life settlement as "a no brainer" in terms of the best solution for this client.

This case example which involved a $15 million trust-owned life insurance policy is not only instructive as it relates to how financial advisers are serving their high-net-worth clients in the wake of the 2017 Tax Cuts and Jobs Act (TCJA), but it is also a powerful illustration of the widening acceptance and deployment of life settlements by most interdisciplinary professionals – CPAs, estate attorneys, financial and insurance advisers.

CLIENT'S CHALLENGES

The client is a 78 yr. old successful entrepreneur in the state of California. Together with his wife (age 76), they purchased a $15 million survivorship UL policy in 2003 for legacy planning when the estate tax exemption was only $1 million per individual.

Over the years the client and wife raised four children who also worked in the family business. After owning the policy for 14 years, the client no longer needed the coverage for estate tax reasons and felt burdened by the $200K annual premium.

Having been cured during experimental trials for cancer several years earlier, the client held a new lease on life and wanted to optimize the value of the unwanted policy so he and his wife could enjoy life, travel more and leave a cash legacy.

COLLABORATIVE APPROACH

The client met with his insurance adviser to discuss options, such as surrendering the policy and buying a new policy with less coverage and more affordable premiums. However, based upon their age and current health condition, the adviser noted that new insurance was not an option as they were both uninsurable. While a life settlement was one of the solutions discussed, there were other issues relating to whether any coverage was still needed for tax planning and whether there would be any tax consequences if they decided to sell the policy.

CASE STATS	
$15M	Survivorship Policy Male/78; Wife/76
$517,275	Net Surrender Value
$200,000	Annual Premiums
$500,000	Policy Loan
$1.7M	Premiums paid

The insurance adviser decided it was necessary to consult a tax planning professional and referred the client to a CPA. The CPA noted that the estate tax exemption had increased substantially since 2003 and immediately determined that the level of coverage was no longer needed for tax planning. The CPA also noted that the recently enacted TCJA provided for more favorable tax treatment on the proceeds of life settlements.

The client's CPA concluded that a life settlement seemed to be the most advantageous solution and referred the case to yet another insurance adviser with specialized expertise in life settlements.

ROLE OF SKILLED BROKERS

Following a lengthy review and discussion of the client's financial objectives, the adviser recommended they pursue a life settlement and the client agreed. Given the size of the policy and the complexity in terms of the client's expectations, the insurance adviser realized the case would require the services of Asset Life Settlements, a skilled life settlement brokerage firm with expertise in negotiating secondary market offers for multimillion policies.

Asset Life Settlements assembled the necessary documents and started the bidding process by submitting the case to multiple providers. As a handful of bids started coming in, some offers involved cash only offers, while other offers included a combination of a cash settlement along with a retained death benefit payable to the trust upon the death of both insureds. In a retained death benefit transaction involving a trust-owned life insurance policy, the beneficiary on the policy (i.e. the trust) remains the same. However, the original death benefit is adjusted and reduced in accordance with the retained death benefit offer agreed upon by the seller and the buyer.

> ***"Having been cured during experimental trials for cancer several years earlier, the client held a new lease on life and wanted to optimize the value of the unwanted policy so he and his wife could enjoy life, travel more and leave a cash legacy."***

Following receipt of the initial bids, the client felt more knowledgeable about marketplace dynamics and the broker's role in helping to shape a settlement package that met the client's objectives. At this point the client and his adviser instructed Asset Life to negotiate a settlement that would accomplish the following:

- Recoup the premium investment
- Pay off the loan
- Provide reduced death benefit (RDB) coverage
- Include a substantial cash settlement

A CREATIVE DESIGN SOLUTION FROM ASSET LIFE SETTLEMENTS

As additional offers and combinations were presented by the interested buyers, we saw further opportunity to tweak the numbers in order to achieve a specific ratio between the cash offer and the RDB offer that best fit their needs. At that point, we went back to the drawing board with a crystal clear view of what it would take to make the deal work. These options were discussed with the interested buyers.

In the end, the client accepted a settlement package involving a gross offer for $2.65 million and a retained death benefit for $2.55 million. The adviser and his client were thrilled that a life settlement was the perfect "creative design solution" to achieve the client's goals.

Commissions were paid to the adviser/life settlement broker from the gross offer reflected by an asterisk in the chart at right.

TAKE-AWAYS FOR ADVISERS

The timing for this case coincided with the recent passage of the 2017 Tax Cuts and Jobs Act and as such, serves as a reminder to advisors that life settlements may be the best option for clients looking for a sensible exit strategy from policies no longer needed for estate tax planning.

In the case discussed above, the client accepted the package offer approximately one week following enactment of the new law. Although the client's CPA will be examining the tax consequences involving the cash proceeds from the settlement, the client will likely benefit from the more favorable tax treatment as a result of the TCJA.

And finally, advisers will want to be mindful that life settlements can often yield the greatest benefit to a client's estate plan via a combination of a cash settlement with a retained death benefit requiring no future premium payments. ★

Jeff Hallman is co-founder and managing partner of Asset Life Settlements, LLC, a secondary market brokerage firm. With more than 18 years of progressively responsible experience since the inception of the industry, Jeff has earned a reputation among his peers as a highly skilled negotiator and one of the foremost professionals in his field. Jeff may be reached at jhallman@alsettlements.com.