Questions and Answers with Integrity Life Settlements

Life Settlements and Viatical Settlements as seen by Integrity Life Settlements and Integrity Life Solutions. The same people who brought you www.freecpe.org

Sept. 16, 2010 - *PRLog* -- What is a Life Settlement?

The sale of a life insurance policy on the life of a senior (generally at least 65 years old) into a secondary market, for a lump-sum cash payment in excess of the cash surrender value. A life settlement would be done instead of surrendering the policy (or lapsing it) to the life insurance company (and for more money than would have been received by surrendering it).

How is a Life Settlement different from a Viatical Settlements.

Although they are often used interchangeably, a Viatical Settlement technically refers to the sale of a policy where the Insured is terminally ill and (regardless of age) has a life expectancy of less than two years. While laws in some states may differ for the two, and while the Internal Revenue Code has special rules for the terminally ill, Viatical and Life Settlements are otherwise very similar.

Who are the buyers? What is their motivation?

Institutional investors (such as hedge funds, investment banks) that comprise a secondary market in life insurance, that seek a rate of return on the death benefit. The Buyer pays the sales price, any premiums necessary going forward, and collects the death benefit when the insured dies.

What involvement does the current owner (Seller) and Insured have after the transaction?

The Seller gets the cash and essentially walks away from the transaction. However, the Insured remains the Insured after the transaction and the policy on his life will remain in force likely until maturity (death). Also, the Buyer will contact either the Insured, or his designee(s) about every six months, as to the health status of the Insured.

Once paid, what can Seller use the proceeds for?

Anything. (But note, taxes may be due on the gains.)

What factors influence the Buyer to purchase the policy, or not, and how much to offer? Among others..

Ø Age and health of the insured.

Ø Type of policy being sold (UL, Whole, Variable UL, Survivorship, Term, etc).

Ø Cost of the policy going forward.

Ø Rating of the carrier.

Ø Face amount, or death benefit, or the policy.

What types of policies can be sold as a Life Settlement?

Any type of policy, except a term policy that cannot be converted to a permanent policy.

Investors require that the policy extends to at least age 95 or 100, and therefore term policies that are not convertible to permanent insurance do not meet this criterion.

What are the most popular reasons people think about doing a Life Settlement?

Ø They cannot afford current premiums and need cash for other purposes more importantly.

Ø They no longer need the policy for estate planning purposes (due, perhaps to a loss of net worth, or change in the tax laws.)

Ø Their term policy has to be renewed or converted to permanent insurance and the new higher premiums are unaffordable. Rather than lapsing the policy, one may sell it into the secondary market.

Ø Where a Life Settlement proves to be a better alternative to a 1035 exchange (e.g. relative to the replacement of needed coverage with a new better performing policy). This would be the case when the sales price, even after taxes, is higher than the cash surrender value in the 1035 exchange.

Ø Corporate owned policies where:

o The key person has left the company and insurance is no longer needed.

o The company requires liquidity more than the insurance

o Where the circumstances creating the need for a buy-sell agreement no longer exist.

§ e.g. the uninsured partner has pre-deceased the insured (older) partner.

How much is paid for a Policy?

Each case is different. Brokers should be able to indicate if a case falls clearly outside of market parameters (as to Insured's health and age, policy type, e.g.) in which case it would not be worth going any further. On the other hand, if a case falls within market parameters, it is very difficult for anyone to make predictions as to market value unless and until the policy is "shopped" in the market.

At what point does Seller obligate himself to completing the transaction?

A life settlement is Seller's option right up to the point where closing documents are signed, normally months after the process was initiated and only after a complete valuation process by Broker. In fact, in many states, Seller is even afforded 15 days after receiving the funds, during which (rescission) period Seller can change his mind, give back the money and cancel the transaction.

What are potential pitfalls to a Life Settlement – how can I avoid these?

Just like in any serious financial transaction, Sellers should enlist the assistance of competent and trusted professionals to ensure legal compliance and appropriate due diligence. Here are some of the things that might go wrong, and ways to avoid them.

Ø PITFALL Seller sells policy too cheaply.

ØAvoidance Strategy: Retain a life settlement broker, who specializes in this field. Life insurance agents often do not specialize and themselves refer their client's case to a trusted Broker with whom they work. It is Brokers job represent Seller amongst some 20-40 possible institutional Buyers; Broker should create an auction amongst interested Buyers to maximize the value of the policy. (Beware of agents that do the work or claim to do the work themselves – they may only "shop" the policy with only one or two potential Buyers).

Ø PITFALL Seller does not know what others in the transaction are being paid.

ØAvoidance Strategy: Seller and his Broker should establish an understanding in writing about what compensation the Broker will be paid upon a successful transaction prior to commencing the transaction. Brokers (including life insurance agents that referred the case to the Broker) should never be paid anything unless the policy has been sold and Seller receives his funds. Broker is paid from the sales proceeds – that is by Buyer or an escrow agent – but to extent Broker receives a large commission, this reduces the amount paid to Seller. Sellers should require Brokers to show Seller all of the written offers it has received on the Policy.

Ø PITFALL Insured may limit his ability to get additional life insurance after this.

ØAvoidance Strategy: Insured will likely be required to disclose all insurance on his life, including policies that have been “settled” or sold. Insured’s capacity to purchase more insurance is reduced to the extent that he already has insurance on his life. Insured/Owner should be sure that selling the policy is the right thing to do in view of future insurance needs.

Ø PITFALL Seller needs the funds in a hurry, but the transaction is taking too long.

ØAvoidance Strategy: This is a lengthy process that requires approximately at least three months; sometimes longer and each case is different. Sellers should stay in close contact with their agent and Broker as to the status of their case but should not set unrealistic expectations as to timing.

About the authors

Alex Sirotkin, JD, is CEO and co-founder of Integrity Life Settlements in Maplewood, NJ, a Life Settlements brokerage since February, 2004. Erez Rotem, LUTCF, is the President of Integrity Life Settlements. For further information - alex@iLifesettlements.com.

Visit www.freecpe.org to learn more about life settlements and viatical settlements.
Continuing education credits offered to CPAs, CFPS, and NJ Insurance Licensed agents

# # #

Integrity Life Solutions, LLC offers a free 2 credit CPE course with No Strings Attached. It is written per NASBA guidelines which approves us to offer a 100 minute free CPE class.It introduces an overview to the Life Settlement industry.

--- End ---

Source	Integrity Life Settlements
City/Town	Maplewood
State/Province	New Jersey
Zip	07040
Country	United States
Industry	Accounting, Insurance, Financial
Tags	Life Settlements, Viaticals, Cpe, Cpa, Life Insurance, Broker, Provider, Funder, Viatical Settlement.policyholder, Senior, Cfp
Link	https://prlog.org/10936658

Scan this QR Code with your SmartPhone to-
* Read this news online
* Contact author
* Bookmark or share online