

LIFE SETTLEMENTS

Selling Life Settlements Today

Find out what you need to know before exploring life settlements.

Nick Mallis, COO of the life-settlement division of Advanced Planning Services, Inc., was at a conference when an advisor asked about life settlements.

The advisor was working with a couple in their late 80s who had an unneeded life insurance policy with a \$100,000 surrender value. Mallis told the advisor he would shop the policy around to see if he could get a life settlement for the couple.

Then the advisor dropped the bomb. “He said to me, ‘Oh, it’s too late,’” Mallis recalls. The advisor had already instructed the couple to surrender the policy. “I said, ‘For the hundred grand?’ He said ‘yes.’” When Mallis told the advisor he might have gotten the couple \$2.1 million in a life settlement, he was shocked.

Mallis’ experience is a good example of how little many agents know about life settlements. So for those thinking of exploring life settlements, here are three things to consider.

Points to ponder

1. You might need a license. In the last few years, many states have implemented various licensing requirements for advisors, agents, brokers and providers who work with life settlements, while others have little or no licensing regulation. Know what you need, especially when transactions cross state lines.

“If you have a case that’s a New York resident who has a home in Florida [and] who has a policy owned by a trust in Delaware,” Mallis illustrates, “you’ve got to adhere to, if not all the states, the most stringent. It depends again on which states are involved. Some states take precedence.” Federal registration requirements may soon come into play, too. In April, SEC head Mary Schapiro suggested in a letter to Congress’ Spe-

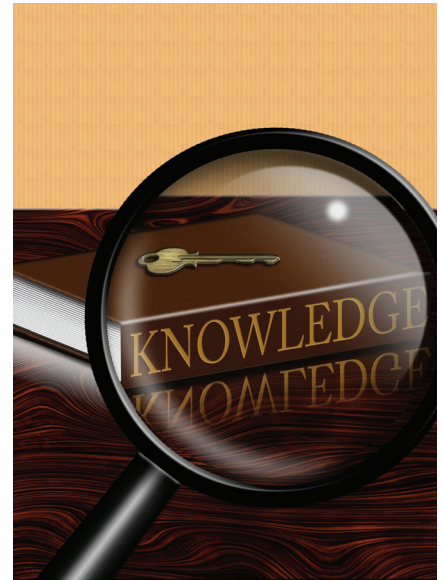
cial Committee on Aging that life-settlement transactions may soon require SEC registration.

2. The policy your client sells will still count toward his insurance-buying capacity. The maximum amount of life insurance people can own is typically equal to their net worth. Policies sold in life settlements still count toward that limit. “If somebody’s income and net worth say they can buy \$10 million of insurance and they have a \$9 million policy that they sell and want to buy another \$9 million policy, they probably can’t do it,” explains Mallis. “They can probably only buy \$1 million because that policy is still in force on their life.”

3. Buyers are picky. It’s a buyer’s market these days, says Michael Gray, president and CEO of MEG Financial, Inc. “We used to have several cases pending at all times. Now, we occasionally submit a case when we uncover an opportunity,” he notes.

The slowing economy has made many investors desperate for cash, which has increased the supply of policies for sale. But shrinking credit markets, increasing life expectancies and controversy over stranger-originated life insurance have made buyers extra choosy. Gray says now only a handful of his 2,000 clients fit today’s criteria.

“Life settlements are a small part of what I do,” he notes. “We’re scrutinizing our prospects significantly more now in terms of sizing up their life expectancies before we actually go into the submission process,” he explains, adding that certain policies get more attention. “The older the better. If it’s a term policy, it has to be convertible and it has to be convertible to something that’s relatively competitive.” Policyholders offering earlier payouts also get more attention. “Whereas before they



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had to have two health issues,” Gray notes, “now they have to have a much shorter life expectancy.”

Even if life settlements are strange to some advisors, Gray and Mallis say fiduciary duty is a compelling reason to learn about them. “The biggest mistake is to not put an option on the table to the client if it is available,” Gray says.

Mallis agrees. He still thinks of that advisor’s \$2 million gaffe. “When I was traveling in Florida,” Mallis says, “I saw a TV commercial that asked: ‘Are you over 70 years of age? Have you cashed in a life insurance policy in the last two years? Did your insurance agent tell you about the life-settlement market? If not, call the law offices of so-and-so.’” □

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