

Robin & Peter on LIFE SETTLEMENTS



January 25, 2011

Looking Ahead

With the New Year under way, here are our observations and predictions for life settlements in 2011. As you will read, we are bullish on the industry and excited about the opportunities to help clients participate in the secondary market for life insurance.

Capital Continues to Return: The purchase of policies ramped up in the 4th quarter of 2010 and is continuing into this year. Almost every week we receive an announcement of a new funding source that we can make available to our clients. More evidence of the increased interest of investors in the settlement market is the recent report that a subsidiary of the private equity firm, Kohlberg & Co., is entering the market through the purchase of a major life settlement provider. This steady uptick in investor interest in life settlements will continue and accelerate in 2011 as the economy continues to improve.

Better Legislation and Regulation: Almost 90% of the U.S. population now lives in a state that regulates life settlements and the remaining states will be enacting their own legislation. It should be noted that most states have adopted legislation based on the consumer-friendly NCOIL model which is supported by the settlement industry. This gives both buyers and sellers additional layers of comfort and protection throughout the life settlement process.

Broker Consolidation Will Continue: The number of life settlement brokerages declined substantially in 2009 and 2010. This trend will continue as smaller and marginal players drop out. The increased cost and complexity of doing business in a more heavily regulated environment make many smaller life settlement brokers no longer viable. Also, with the demise of STOLI, brokerages that emphasized that business are already gone. The good news for consumers and producers in all of this is that what will be left are a smaller number of larger, compliance intensive life settlement brokers.

Producers Going Direct Disappearing: The expanding regulatory burden, the fiduciary responsibility to properly shop life settlements, and the increased

investor/provider fussiness over who they will do business with mean that producers who go the do it yourself route are an endangered species. Many providers will not do business without a life settlement broker's involvement and therefore, producers who go direct lose the benefit of the exposure to all available funding sources.

\$5 Million Estate Tax Exemption Prolongs the Uncertainty: The two year increase in the estate tax exemption to \$5 million should not produce a flood of policies for life settlement. Advisors and their clients are more aware than ever of the fickle nature of tax policy and the many other important benefits that life insurance provides like wealth creation and income protection. However, in this economic environment there are still many clients struggling to pay premiums and combined with the perception that, in the long term, a return to a \$1 million exemption is unlikely, there will be some increase in policies looking to be settled.

NCOIL Disclosure Means Better Informed Consumers: More states will enact the NCOIL model disclosure law requiring insurers to inform elderly consumers who are about to lapse or surrender a policy that the option of a life settlement exists. Agents of companies that prohibit them from doing life settlements will increasingly be caught in an unenviable position between their company's restrictions and the best interests of their clients. At some point, the insurance companies and broker-dealers that prohibit their producers from participating in a life settlement will have to recognize the responsibility that producers have to their clients.

As we have said many times, ***"The starting point for considering a life settlement is after someone has exhausted all other options and decided to surrender or lapse a policy; it is not an alternative to keeping a policy."***

With that in mind, if you combine the positive outlook for additional capital, the favorable legislative scene, and the knowledge, experience and access to capital that we have available, 2011 should be a good year for life settlements.

As situations come up, we welcome the opportunity to discuss them with you.

Contact us:

Robin S. Weinberger, CLU, ChFC, CLTC

(617) 451-3343

rsw220@aol.com

Peter N. Katz, JD, CLU, ChFC

(860) 673-3642

pkatzlife@yahoo.com

Have you missed any of our past newsletters? Visit our [newsletter archive!](#)