Robin & Peter on LIFE SETTLEMENTS

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All the Pieces Are in Place for a Boom in Life Settlements

Now that 42 of the 50 states, covering over 90% of the U.S. population, have enacted legislation to orderly regulate life settlements, the foundation has been laid for the industry to thrive. But will it? Like any business, the bottom line comes down to the law of supply and demand. These two cornerstones of economics are lining up heavily in favor of the life settlement industry.

The Supply Side:

1. **ATRA (the American Taxpayer Relief Act) has wholly eliminated federal estate taxes for almost everyone.** The few remaining individuals subject to that tax (estimated at roughly one-tenth of one percent of the population annually) will see substantial decreases in their estate tax liability. As a result, many policies owned on the lives of seniors for estate tax liquidity purposes are no longer needed. While some will choose to continue their coverage, many will undoubtedly take advantage of the change in estate taxes to free themselves of the burden of paying premiums on policies they may no longer need.

2. Except for policies with secondary guarantees, universal life insurance was often bought using premium levels that would carry the policy based on crediting rate assumptions that prevailed at the time of purchase. **The current period of low interest rates means unexpected and often unaffordable premium increases for policies that were bought based on the higher crediting rate assumptions of the past.** As those higher premium notices are received by policy owners, many will allow their policies to lapse or decrease their coverage. A life

settlement can provide a very attractive alternative.

3. **The oldest baby boomers are now reaching age 68** and there are tens of millions to follow. Many are retiring and no longer need all of their coverage which may have been bought to replace earnings or for business planning needs. Concurrently, they are reaching the ages which are most attractive to life settlement investors.

4. The downside to increasing longevity is **the growing need for long term care.** Not just baby boomers, but their parents as well, are faced with the challenge of maintaining their income for longer periods of retirement and the burden of increasing costs for medical and custodial care. Maximizing the living value of their life insurance through a life settlement can provide badly-needed funds for these needs.

5. **Consumers are becoming increasingly aware of the life settlement option.** Already adopted in various forms in six states, the NCOIL (National Conference of Insurance Legislators) Model Disclosure Act requires insurance companies to notify senior policy owners with policies about to be lapsed or surrendered that alternatives like a life settlement exist. Medicaid life settlement laws, like the one already enacted in Texas and proposed in a number of other states, require that consumers applying for Medicaid be made aware of life settlements as an alternative option to surrendering their policy to offset long term care expenses. The growing awareness of life settlements will mean more consumers will possess the knowledge that their policies may be worth considerably more than the insurance company will pay upon surrender and this means more policies will come to market.

The Demand Side:

1. When the financial markets collapsed in 2008, the stock market suffered a near record decline. Savvy investors viewed this as a significant opportunity in the stock market and this drew money away from other types of investments. Now that the stock market has bounced back to record highs, many perceive less upside potential and considerably greater risk than a few years ago. **Life settlements are viewed as an attractive alternative investment that is not correlated to the stock market.**

2. With interest rates at record lows, the prevailing view is that they have nowhere to go but up. This means bonds and similar fixed income investments can be a rather risky place to put money. Like with stocks,

life settlements appear to be an attractive alternative that is not correlated to interest rates.

3. With more years of experience behind them, **life settlement life expectancies are more credible than ever before.** Increasing confidence in the ability to make more accurate predictions is bringing back investor money into the market place.

4. **Large pension funds, which represent billions of investment dollars, have been entering the market.** They are generally large fixed income investors, but with interest rates so low, they are looking for alternatives. Pension funds are increasingly finding life settlements to be a fit with their long term investment horizon and their need for investments that are not correlated to the stock and bond markets.

5. **The greatest untapped market for life settlements are smaller policies below the traditional sweet spot of $500,000.** Investors are just beginning to realize the investment potential in this underserved market. Life settlement underwriters are developing simplified underwriting methods for smaller face policies which will make acquiring these policies financially viable and attractive.

These supply and demand factors are already impacting the marketplace. The surge in life settlement activity has already begun. Volume is on the increase and more cases are closing. We are getting offers not seen since before 2008. And this is only the beginning. **For life settlements, the future is now.**

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