Robin & Peter on LIFE SETTLEMENTS

Issue No. 113, December 1, 2020

3 Ways to Miss Out on Maximizing the Value of a Life Settlement

All too often, we encounter producers who unknowingly failed to maximize the life settlement value of their client's life insurance policy. It appears they just did not get as good of an offer as they should have or, perhaps, they got no offer at all! Here are three common reasons why their clients may not have gotten top dollar for their policy.

Inadequate Shopping: Some producers "go direct" to just one or two life settlement providers instead of shopping the broad life settlement market. Providers are increasingly trying to get producers and, in some instances, clients themselves to go direct because they find that this approach allows them to buy policies cheaply. Since life settlement providers represent the investors, not the policy owner, it is their duty to try to purchase a policy for as little as possible.

Life settlement brokers, like us, on the other hand, represent the policy owner and it is their duty to get the most for a client. They shop the whole market and get providers to compete for policies and bid up their offers.

There is one additional issue with going direct. In the vast majority of states, a producer who seeks to obtain a life settlement on behalf of a client is a fiduciary. This means the producer must use best efforts to maximize the client's offer. *An inadequately shopped policy could violate the producer's fiduciary duty*.

Non-medical Underwriting: Make no mistake; there is a place for non-medical life settlement underwriting. It offers speed and simplicity, especially for smaller policies, and, in some instances, benefits healthy clients. To maximize a client's offer, however, there is usually no substitute for a fully underwritten case. A comprehensive review of a client's medical history, particularly for older clients, often reveals possible medical issues that even the client was not aware of.

A form of non-medical underwriting is the "quick informal appraisal" that attempts to estimate a policy's worth on the settlement market. Although they can offer some insight into a policy's value, *appraisals are primarily prospecting tools and are no substitute for full underwriting to maximize a policy's value*.

Failing to Monitor Term Insurance: Once a term policy is no longer convertible, it is almost impossible to market it as a life settlement. That's because the premiums become very expensive once a policy leaves the initial guarantee period which makes it unattractive to investors. The ability to convert to universal life avoids those sky-rocketing premiums.

Unfortunately, *many producers don't actively follow conversion period expirations on their clients' policies*. For many policies, the expiration of the conversion period happens before the end of the guaranteed premium period and can easily be overlooked. So separate tracking is required.

Have you let your clients down and let them miss out on a top dollar life settlement offer? By working with us, you can be sure we'll leave no stone unturned and, therefore, will maximize the value of their policy.

Contact us:

Robin S. Weinberger, CLU, ChFC, CLTC
(617) 451-3343

Peter N. Katz, JD, CLU, ChFC, RICP®

(860) 937-2936

Ria J. Johnson, CFP®
(619) 920-4000