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MARCH | APRIL 2006

Helping Senior Clients and Nonprofits Benefit from Life Settlements

By Marlene Frith

Clients over the age of 70 and charitable organizations that own policies donated by seniors are benefiting from life settlements. Changes in family dynamics, such as divorce, often trigger substantial adjustments as they relate to the continued need for life insurance coverage. And financial planning professionals may not know that life settlements are also an effective solution for nonprofit organizations that own donated policies that may be at risk of lapsing.

Here are two recent case studies that illustrate these points:

Problem: Divorcing couple no longer needs a life insurance policy

Solution: Couple splits the proceeds from a life settlement

Mary (72) and John (age 78) were a couple with a $1 million policy. When the coupled decided to divorce, the pair agreed the policy was no longer needed and did not want to continue paying the annual premium of $25,550. With a cash surrender value of only $8,179, the couple opted for a life settlement in the amount of $120,000 — approximately 15 times the cash surrender value. The couple planned to split the proceeds from the settlement offer as part of the divorce agreement.

Problem: Donated policy on the verge of lapse or surrender

Solution: Life settlement provides charity $1.395 million on a $4 million policy

This case involved one of the nation's largest community foundations, to which a donor had gifted a $4 million second-to-die survivorship policy. When the husband passed away, the spouse was unable to maintain the premiums through cash gifts to the charity, and the foundation considered surrendering the policy for $474,000. However, the family's financial adviser suggested a life settlement as the most appealing solution for both parties. The widow agreed to work with the charity in pursuing a life settlement, resulting in a cash payment to the community foundation for $1.395 million — nearly three times the cash surrender value.

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When Should a Financial Planner Recommend a Life Settlement to the Client?

A life settlement is the sale of a life insurance policy (valued at $250,000 or more) by a person over the age of 70, for a payment greater than the cash-surrender value. The policy is typically sold through a life settlement broker to an institutional funding source that assumes premium payments. Situations that might indicate a life settlement is appropriate include:

- Policy is not performing according to expectations and is in danger of lapsing or being surrendered
- Insured's estate tax burden has decreased, reducing the need for coverage
- Family circumstances have changed and the coverage is no longer needed
- Key-person retires or sells the business, eliminating the need for coverage
- Liquidity to purchase replacement insurance, other investments, or for cash gifts
- Insured needs cash to finance assisted living expenses for self or spouse
- Charitable organization who owns a donated policy cannot maintain premium payments and the policy is at risk of lapsing or being surrendered

Life settlements are regulated by a majority of the states and have become a mainstream wealth-management tool for financial professionals. Once the client determines that he or she no longer wants or needs the policy, financial planners can assist them in obtaining the highest possible settlement by working with a reputable life settlement broker to obtain multiple offers from institutional sources.

Marlene Frith is director of marketing for Advanced Settlements Inc., in Orlando, Fla., and is also a board member of the FPA of Central Florida.

Tools to Use

Review and download White Papers regarding life settlements (scroll to bottom of screen after the page loads):

www.advancedsettlements.com/assets/pages/resourcepage.php