



INVESTMENT HUNTERS

Build Wealth with **Life Settlements**

Sell Your Unwanted
Life Insurance Policy
for Cash



BUILDING WEALTH SERIES



Build Wealth with Life Settlements

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Introduction

If you are 65 years of age or older and have an unwanted life insurance policy, a life settlement can pay cash for your policy.

If you are a wealthy individual in need of a life insurance policy, premium financing can be an affordable method of obtaining comprehensive coverage.

Life Settlements

Seniors are cashing in on unneeded life insurance policies and benefiting from life settlements. Many American seniors, typically those 65 years of age or older, are discovering that life insurance policies that once seemed appropriate no longer meet their needs. Unfortunately, the life insurance companies that sold them the policies in question may not offer real advice or solutions. The insurance companies do allow their customers to “surrender” their policies, which means the policyholder will be offered a mere fraction (typically 3-5%) of the policy’s face value. However, they often discourage their personnel from telling customers that they can realize far better cash outcomes thus obtaining far greater payoffs on their existing policies – through life settlements. A life settlement is the sale of an existing life insurance policy for more than its cash surrender value but less than its net death benefit. Such transactions, usually undertaken for the purposes of estate or financial planning, put choice in the hands of American consumers. Life settlements represent an important option for a growing number of people who thought they had no options. Rather than continuing to pay



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premiums on a policy that no longer serves its original purpose, life settlements offer payoffs that can be significantly greater than surrendering a policy. Life settlements offer a reasonable and profitable exit strategy that addresses the financial objectives of policyholders.

Americans have an extraordinary amount of choice in most products and services, and have come to expect the same freedoms to maximize value in the realm of life insurance. Similarly, they have come to expect the same amount of freedom to maximize value in the realm of life insurance. They are recognizing that life insurance is merely one asset within an estate or financial portfolio that should be managed for optimum outcomes. They are no longer willing to treat life insurance as an “untouchable” product that must always be held until death.

Changing priorities or dissatisfaction with life insurance policies have driven many policyholders to discontinue their existing life insurance policies. While policy owners have had a legally protected right to sell (or “assign”) a life insurance policy for almost a century, very few have taken advantage of this opportunity until recently. Here are some of the factors encouraging insured individuals to reconsider the value and necessity of their current policies:

- **Guidance from their financial advisors:** As the poor performance or under-performance of certain life insurance (particularly universal life) policies becomes increasingly clear over time, financial advisors – and even independent agents who originally sold the policies – are exploring options with their clients. Financial

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advisors, who are increasingly attuned to the changing needs and priorities of their customers over time, may suggest alternatives. Many independent insurance agents, who have an inside perspective on how individual policies have performed, also are beginning to discuss options with clients. However, insurance companies in contrast do not fully advise their clients about their choices.

- **Empty nest:** As Americans enter their senior years, they often experience unexpected changes that alter their priorities. Policies that once made sense no longer do under new circumstances. For instance, decisions that seemed appropriate when policyholders had children in the house may no longer seem appropriate. These life changes may drive some seniors to decide that a given life insurance policy is no longer relevant and that other steps should be taken to achieve full financial empowerment.
- **Dissatisfaction with existing policies:** Whether the motivation is changing circumstances, better financial options, or the availability of superior policies that render old ones obsolete, many seniors may find themselves dissatisfied with existing policies. Indeed, quality improvements in insurance policies over the years are driving individuals to abandon policies they consider to be outdated.
- **Escalating policy premiums:** Many people are not prepared for the steep escalation in premiums that accompanies ownership of many policies. Moreover, they may be hit with these policy increases right at the time when they are experiencing mounting health care costs and other financial concerns. Under such



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circumstances, a policy may seem to be a lower priority than it might have been in the past.

These factors have created demand for alternatives among many who now hold life insurance policies. As an alternative, life settlements are now becoming a more popular option among these consumers.



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Premium Financing

Premium Financing is actually quite simple: instead of paying cash to fund a life insurance policy, a bank lends the money to the policy-holder to pay the premium and the bank is later repaid from the policy-holder's death benefit. This allows the policy-holder to acquire an insurance policy without having to put up cash themselves. Sometimes this arrangement is referred to as "free insurance".

Obtaining a comprehensive life insurance policy for a wealthy individual can be very costly. The idea behind premium financing is that when a wealthy individual has a need for life insurance protection, this individual also has sound financial reasons not to liquidate high performing investment portfolios, assets, or impact current cash flows in order to afford the insurance premium. In this way, premium financing greatly reduces the monthly out-of-pocket expenses for the wealthy individual by leveraging a bank loan.

Premium financing may offer a way to safeguard a wealthy individual's financial legacy without dramatically changing their current financial situation. One can fashion a premium financing arrangement by working with tax, legal, or financial advisors to achieve their financial goals. Details of premium financing are covered in a later chapter of this book.