



CASE STUDY: A BLACK CLOUD OVER LIFE SETTLEMENTS

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I want to share a story that illustrates why life settlements have had a black cloud over them for years. In the process, I'll prove why it may potentially be an excellent opportunity for policyholders and agents to use settlements, but it must be done correctly to avoid these situations.

Term conversions are the most straightforward cases to work. The paperwork is short, and the turnaround is fast. This case was going to be around a \$225,000 per year of premium into a new permanent contract, which was a nice payday for the agent (\$125,000) and perfectly fit within the client's budget.

Enter the Life Settlement Broker

My broker had a long-standing relationship with a life settlement broker, and they were in their ear about doing the exact same transaction we presented but using a life settlement as part of the process.

Here's how it works:

1. The client initiates the term conversion into the permanent contract.
2. The client pays the minimum monthly premium to get it in force.
3. The life settlement company takes over ownership and pays the premium back to the client.
4. The client receives a nice lump sum payout for buying the policy.
5. The new policy owner then pays all future premiums.

The clients needed the coverage for estate planning but felt their beneficiaries would be financially secure for the future. The idea of getting a cash lump sum they could use today intrigued them. My broker decided to move forward with the life settlement broker's design.

Something Doesn't Add Up

My agent called me to explain the situation, and after asking a few questions, something didn't seem right. I had some serious questions. I called one of my good friends and partners over at a major life settlement funder (not a settlement broker) and asked for a favor. I knew there was a good chance that this case was shopped with them. He came back and confirmed that they had the case in-house and was able to provide me the specifics of the offer.

The offer that the life settlement broker was disclosing to my agent was that they were going to receive a lump sum payout of \$105,000 for the client (which they could take a small fee off the top for their work). Sounds awesome right? Well, until my partner at the life settlement company told me the offer was \$235,000!

It doesn't take much to understand what's going on here, and this is one of the biggest reasons why the life settlement industry has a black cloud over it. The life settlement broker was misleading the client and my agent to think the \$105,000 was a great offer; when in fact he was going to pocket \$120,000 himself!

We sat down with my broker and the life settlement funding company and explained the situation. We had to be sensitive to this matter because the only reason I knew the offer was because of my relationship with one of the top life settlement buyers in the market. Fast forward, and we were able to catch the life settlement broker in the lie. The hard part is my agent had been working with this guy for over ten years. Who knows how much he's been skimming off him during that time? At least we were able to put a stop to it.



Eliminating the Middleman

I was able to get my broker hooked up directly with the life settlement buyer and remove the life settlement broker from being in the middle of the transaction. The agreement we have with them is any business done results in a referral fee (a flat percentage of the death benefit). It doesn't result in any compensation out of the client's offer.

This prevents any misleading offers as the previous life settlement broker had been doing. The client receives the check directly from the life settlement company. The advisor then receives a referral fee directly from the company as well. I should note that with this agent-direct-to-buyer structure, FIG agents don't need to get additional life settlement licenses or E&O insurance because that's all provided by the life settlement buyer. Unlike a life settlement with a broker in the middle, this allows for a seamless introduction into life settlement for any agent's practice. It also prevents any wrongdoing as compensation doesn't come out of the offer.

It Gets Better...

Once my team and my partners at the life settlement company got their hands on the case design, we were able to create a plan that made more sense for the settlement company to purchase.

The result was that the client received a lump sum of \$250,000, and my advisor received a referral fee directly from the life settlement buyer. *However*, there was also a term conversion commission that was due to the advisor (remember that the life settlement company is making the premium payment). The total commission was \$515,000!

So, we were able to double what the client received. They were ecstatic *and* increased the compensation fivefold without affecting any money due to the client.

It was the ideal solution that the client wanted but could have quickly gone the wrong way, and honestly, the client and my agent would've never known.

Bottom Line

The life settlement space is making a comeback and thankfully is more regulated today, but that doesn't stop some from taking advantage. I'm a huge believer that the structure, when done correctly, is a great option to offer. In most situations, life insurance policies are a valuable asset the clients never realized they could use to address their financial needs today!

That's why FIG created direct agency relationships with life settlement buyers to remove unnecessary middlemen, to make sure the highest economic value for the transaction is benefiting the policy owner and our agents.

Disclosure

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