

Life Settlements For Fiduciaries



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The Life Settlement Market

Secondary market: First-time sale

- About 3,000 transactions per year
- Gross purchase price is usually 10% to 40% of death benefit
- Total transaction costs can exceed one-third of the price paid by the buyer

Tertiary market: Resale

Four Best Practices

- If a life settlement has been proposed, look for better alternatives.
- When advising on the termination of an existing policy or the purchase of a new policy, consider a life settlement as an option.
- Follow a reasonable process to obtain high gross purchase offers.
- Justify transaction costs.

Case Study

- Fixed universal life. Nonguaranteed values.
- \$700,000 level death benefit. Matures for cash value at age 100.
- Policy date: 5/20/2006. Female NS, date of birth: 10/18/1929.
- 5.5% premium charge. \$4 monthly fee. Monthly cost of insurance. No surrender charge. 4.5% interest rate.
- Less than \$1,000 cash value. \$200,000 tax basis.
- Premium schedules: (1) \$99,234 level annual; (2) \$9,016 level monthly; (3) level monthly: \$6,704 for 3 years, then \$9,616 for 3 years, then \$13,961 for 5 years.