

## **Life Settlements: A new look at Life Insurance**

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A **Life Settlement** enables older individuals, businesses, and other organizations to sell life insurance policies they currently own — but no longer want or need — for an amount greater than the cash surrender value.

### **Here's the Background**

Life insurance policies can help address a wide range of financial goals, from meeting estate taxes to protecting against various business risks. For affluent individuals, these policies can represent millions of dollars in assets. Over time, circumstances can change and policies may become outdated, inefficient, or unneeded. Rather than surrendering a policy for its cash value or letting it lapse, first consider a Life Settlement.

In a Life Settlement, the amount of money the policy owner receives is based on the insured's age — typically over 70 — table rating, and the policy's costs, age and cash surrender value. Most clients have experienced a decline in their health status since the policy was first issued. Policy face values range from \$250,000 to in excess of \$20 million. As an alternative to simply surrendering a policy, this service enables your clients to receive the greatest value from an asset they may no longer wish to maintain.

In a typical transaction, a third party purchasing company pays an amount greater than the cash surrender value, and it is unclear whether this amount is treated as a capital gain or ordinary income. Anyone considering the sale of a policy should consult a professional tax advisor.

Purchasing companies will buy most types of life insurance, but due to their characteristics, universal policies are generally the most desirable. As the new owner and beneficiary of the policy, the purchasing company is responsible for making all future premium payments and ultimately collects the death benefit. It is highly advisable to sell only to institutionally funded purchasing companies as they have undergone strict due diligence and abide by all existing regulations.

### **When To Sell**

Policy owners should always work with insurance or financial planning professionals to structure a sale that meets the desired objectives. Here are several circumstances that might be right for utilizing a Life Settlement.

## **Business Applications**

### *Mergers & Acquisitions*

- Where a policy was previously purchased to finance a buy/sell agreement that is no longer needed after the business has been sold to a third party.
- Because of a change in ownership, a key-man policy is no longer necessary.

### *Re-examining Business-Owned Life Insurance*

- A business owns a key-man policy on an executive who is no longer employed there.
- A company owns policies purchased to fund deferred compensation or retiree benefit programs after such programs have been changed.

## **Estate Planning Applications**

- A reduction in your estate size, or a change in tax policy, means less insurance is required to pay projected estate taxes.
- You have a change in financial condition, and the premium is no longer affordable.
- You outlive his or her beneficiaries.
- An increase in liquidity makes life insurance a less desirable funding mechanism to pay estate taxes.
- A policy gifted to a not-for-profit organization can be sold by the organization to supplement current cash flow.

## **Uses for Sales Proceeds**

A Life Settlement eliminates costly premium payments for the current owner on a policy that is no longer needed or wanted, and the funds received from the transaction can be reinvested into other financial resources. Options for using the proceeds include:

- Funding the purchase of a new survivorship policy in an insurance trust;
- Buying back stock from a stockholder;
- Buying out the ownership interest in a split-dollar life insurance policy;

- Purchasing additional securities, mutual funds, or annuities as long-term investments;
- Paying gift taxes generated from gifting other assets to children or grandchildren;
- Providing cash for supplemental income;
- Funding a charitable gift, charitable lead trust, charitable remainder trust or gift annuity.

**Conclusion: A Life Settlement** might be right for you if you have a policy that you no longer need or want. You should always consult a professional advisor to determine if the transaction would fit your goals and objectives.

For more information on this and other wealth management strategies, please contact Richard Krim, ChFC or Scott Krim, CPA.

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