

# FRACTIONAL LIFE SETTLEMENTS

## Watch What They Do...

by BRIAN CLARK



**P**icture the following conversation between an advisor and her client:

*Advisor: "Hi, Jim. I'm recommending you invest \$10,000 of your portfolio into that investment I was telling you about."*

*Advisor: "Are you kidding me, Jim? I wouldn't touch that investment with a 10-foot pole!"*

*Client: "Hmmm, okay Gina. If you think it is a good idea. By the way, how much of this investment do you own?"*

*Do you think the client will invest their money into the investment mentioned in this situation? Not likely!*

The lesson here is one that my parents taught me when I was still quite young. They told me, "Don't just listen to what people say, watch very closely what they do." The same lesson applies each time we hear a recommendation from some large investment shop on what to do with our hard-earned money... "Invest in quality, buy and hold, diversify among different kinds of stocks and bonds, etc., etc." But where are they putting their money? Are they following the same advice they are giving us, or are they doing some things differently? Sometimes it can feel like the message from the financial media and

"the professionals" is to buy stocks, bonds and real estate and you are all set! But is that what "the professionals" are doing with their own money? Shouldn't we ask that?

For example, would it interest your clients to know what large, historically successful investors like Warren Buffett, Blackstone and national pension funds are investing their money in right now? For example, Blackstone, one of the world's leading investment firms, has quietly been investing billions of dollars into an asset class that most of your clients have never even heard of. You may not even be very familiar with it. I'm talking about

investing in life settlements. In addition to Blackstone's involvement, Warren Buffett's Berkshire Hathaway is reported to invest up to hundreds of millions of dollars each year into life settlements. As reported by Deal Street Asia, New Zealand recently invested \$145 million in their National Pension Super Fund. So, the big players know about life settlements as an investment, but do you and your clients know about it? Do you know how to offer it and access it?

### **LIFE SETTLEMENT 101**

As a refresher, a life settlement is simply the sale of an unwanted, un-

needed or unaffordable life insurance policy to an investor for more than the cash surrender value, but less than the death benefit amount. Once settled (or sold), the new owner/investor continues to pay the premiums until the insured passes away and they then collect the death benefit. A relatively small fraction of all the life insurance issued falls into the category of being appropriate for a life settlement. On occasion though, life changes from the time when a person first made the decision to buy a policy. Perhaps there has been a divorce, or a child has predeceased the parent, or estate tax laws change, or a business dissolves where there was key person insurance in place. These are just a small handful of the reasons why an aging senior may wish to sell their policy. Simply put, the senior will decide to do a life settlement if they conclude that selling the policy for value today to put money in their pockets now is worth more to them than continuing to pay the premiums and leave money to someone else upon their passing.

Buying these life insurance policies has been an attractive investment to the “big, smart money” for many years for a few important reasons. I will highlight three. First, having a slice of your investment portfolio insulated from the risks that the rest of your money is exposed to can be quite valuable, especially when some of the other investments you are in lose value, as stocks and real estate seem to do cyclically. This is called non-correlation. True non-correlation is highly coveted and hard to come by when you are seeking to hedge other risks, like geopolitical risk, rapid declines in stock or real estate values or bond funds losing value in rising rate environments as we find ourselves now in. Think back to 2008 when stocks and real estate lost value at the same time, bringing us closer to the brink than anyone wanted. A decade later, if you are finding your memory of those times to be getting a bit fuzzy, go back and read *The Big Short* by Michael Lewis. Or you can always just watch the movie...

A lot of people at the time believed their real estate holdings were a hedge to their stock holdings, and oth-

ers thought their stock holdings were a nice hedge to their real estate. Not so much as it turns out, and I am not alone in feeling that as bad as it was, we got off relatively easily with such a rapid V-shaped recovery. Is there another shoe still to drop as a result of all the quantitative easing (QE) that occurred (QE is a great term that is code for what might be considered “printing money like crazy”)? We are just now in the process of unwinding this stimulus, and so as Jamie Dimon, CEO of J.P. Morgan Chase, recently pointed out in a CNBC interview, we have never had to unwind this level of quantitative easing, so we are facing something unknown and untested, so there is some uncertainty in how this will all play out. As we all know, the markets typically don’t like uncertainty.

The second reason life settlement investments have been attractive to large, institutional investors is the very competitive risk-adjusted return history and performance potential of the asset class. In a recent empirical study, the prestigious London Business School looked at a portfolio of life settlements worth \$24 billion of death benefit and concluded that from 2001-2011, the average annual returns of the portfolio were expected to be a bit better than 12 percent annually. In the study, Professor Narayan Naik was quoted as stating, “Being largely uncorrelated with other financial markets, the life settlement asset class would appear to be an interesting investment opportunity for those willing to include longevity risk in their portfolio and to commit capital for the medium term.” You can be sure that your clients are not aware of this study, but you might just be the agent to educate them.

The third reason for the popularity of life settlements is that the large investors appreciate the quality and certainty and of the investment gains. The gains are derived from the death benefit payouts of some of the world’s oldest and strongest companies, namely strong U.S. life insurance carriers. I’m guessing you wouldn’t be in this industry reading this article if you didn’t have high confidence that U.S. life insurance companies will be able to make their death benefit payouts. And since the payouts are coming

as a matter of when and not if, there is a level of certainty that the gains will happen. As Benjamin Franklin famously stated, there are two certain things in life: death and taxes.

### FRACTIONAL LIFE SETTLEMENTS INVESTING

The good news, now that you know more about this unique opportunity as a life licensed agent in California, is you can now offer your clients access to life settlements in what is known as fractional life settlements investing. With fractional life settlement investing, your clients can own pieces (or fractions) of various life insurance policies that were sold usually by an aging client in declining health. If you are offering annuities and life insurance, or P&C or health insurance, you could add fractional life settlements to your product mix, and help your clients add some true diversification to their investment portfolios while increasing your revenues. You will also find that since there is relatively little competition in this space, it is a powerful door-opener for you that will allow you to work with higher net worth families. Offering this unique investment can also be a great differentiator for you in your marketing efforts. Think about how many annuity pitches clients hear on a regular basis vs. how many life settlement presentations they see. After you do your due diligence, you may even decide to make an investment yourself, since your clients may not only be listening to what you are saying, but they may also be watching what you are doing. Find a reputable fractional life settlement company today and reach out to get started! ★



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