# Life Settlement Investing

## INVESTING IN SECONDARY LIFE INSURANCE POLICIES CAN GIVE YOUR CLIENTS WHAT THEY WANT – AND MORE IMPORTANTLY, WHAT THEY NEED!

by BRIAN J. CLARK

***"Are Life Settlements something my clients should be investing in to help them achieve their financial goals and reduce risk in their portfolio?"***

In the August 2016 issue, the article on Life Settlements titled "Are Life Settlements Right for my Clients?" looked at the industry from the perspective of clients that owned life insurance that they no longer needed, wanted or could afford, and it made the point that selling (or settling) a policy might be right for them as compared to their other alternatives of lapsing or surrendering the policy.

Today we examine the exact same question, but from the perspective of the other side of the transaction: Are life settlements something my clients should be investing into to help them achieve their financial goals and reduce risk in their portfolio?

Investing in fractional life settlements has proven to be the answer to the question so many investors are asking this year: What to invest in to navigate this volatile and somewhat crazy world we find ourselves in? For much of this year, headlines were filled with events that increased volatility in the world's economies. Twice in 2016 the market has plummeted. First, it was the price of oil that dragged down equities early in the year. Then it was the Brexit vote. Other events helped to create volatility, including civil unrest in the United States, arguably the craziest election season we have seen in modern times, along with terrorist attacks both domestically and abroad.

At the same time, interest rates are still so low that investing in fixed instruments almost seems akin to investing in a shovel and digging a hole to bury your money in the backyard. Additionally, the real estate market is beginning to show signs of possible weakness. So what is an investor to do? Just ride the roller coaster and hope that the markets don't correct, even though we are now more than seven years deep into a bull market? And if (read: when) it does correct, how long will it take to recover? Three years? Five years? Seven or ten? Nobody knows. Do your clients have that kind of time or the stomach to see it through until it recovers yet again?

If you are like most advisors, your clients look to you for solutions. Fortunately, you have them. In addition to providing life insurance and annuity guarantees, as a California life licensed agent, you can now also offer your qualified California clients and prospects the ability to invest in other people's life insurance via fractional life settlements.

Many agents are familiar with the concept by now: a senior, typically not in great health, no longer wants, needs, or can afford their life insurance policy, so they sell it (or settle it, as it is called). This transaction provides great benefit to the seller over their alternatives of lapsing or surrendering their life insurance policy. Your clients and prospects can now invest in these types of policies as an alternative investment known as Fractional Life Settlements. Through their investment in the asset class, they can own pieces of multiple insurance policies which are purchased at a steep discount to the face value or maturity value they will receive. Because the returns are non-correlated, they don't have to worry about stock market volatility, bond prices, real estate prices, news headlines, politics or anything that they normally worry about with most other investments.

When the policies mature, your clients participate in the proceeds paid out by the insurance companies' death benefits. It is really pretty simple. What seems to keep people out of this market is a lack of awareness and basic education. Many people simply don't know about this investment and if they hear about it, they think somehow it is a potentially morbid way to make money. If they simply understood the life insurance industry better, many would understand that is actually opposite of the reality. Seniors can benefit greatly from selling a policy that is no longer wanted, needed or affordable to them. In fact, studies have shown that they can often receive three to five times the cash surrender value that the insurance carrier might pay them.

Let's take a look at an example of an 80-year old with a $1 million face amount UL policy with a $50,000 cash surrender value who isn't in great health. If there were no investor to offer them a life settlement, and they could no longer afford to keep the policy in force, or simply no longer need or want the policy, their only options are to let it lapse or cash it in for $50,000. But today we have smart investors who understand the benefits of non-correlated yield and the benefits that an investment into secondary life insurance policies can provide. Therefore, we do have a secondary market for life insurance which might end up paying that insured 80-year old $200,000.

Morbid? Tell that to the 80 year-old with the extra $150,000 in their pocket that allows him or her to afford in-home care and live with more dignity, or take that once-in-a-lifetime vacation, or maybe help the grandkids. Morbid to me is only having $50,000 the insurance carrier was willing to give them for cashing the policy in, or maybe nothing if lapsed, instead of the $200,000 they would receive in our example. I am confident that if more people understood this, they would be quite interested to learn what fractional life settlements could do for their retirement portfolios. It's plain to see why some of the largest and most successful institutions and hedge funds in the world have been using this asset class for decades to mitigate market risk in their investment portfolios while achieving yields most believe are unreachable.

So that is the client's view and perspective of the world at the moment, but what about your view as a California life agent? If you are like many agents you've got your eye on the potential effects of the new DOL Rule. Most advisors I've spoken with this year are quite concerned how this will all shake out, and what impact it will have on their businesses. If some version of the rule comes to pass that makes doing business more challenging, keep this in mind: They say that when one door closes, another one opens. Well, sometimes you have to find that door and kick it open yourself!

If you are at all anxious about the potential that you could lose some revenue as a result of the new rule, or that business may be more challenging going forward (however the rule ends up being implemented) why not take a proactive approach to adding new revenue sources to your business right now? Do your due diligence and pick a trusted partner in fractional life settlements who has experience, and begin to offer your qualified clients and prospects an additional investment that has little to no correlation to other markets and an attractive risk-reward profile to boot. Do it today! ★

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