SPECIAL REPORT:

[Life Settlements]

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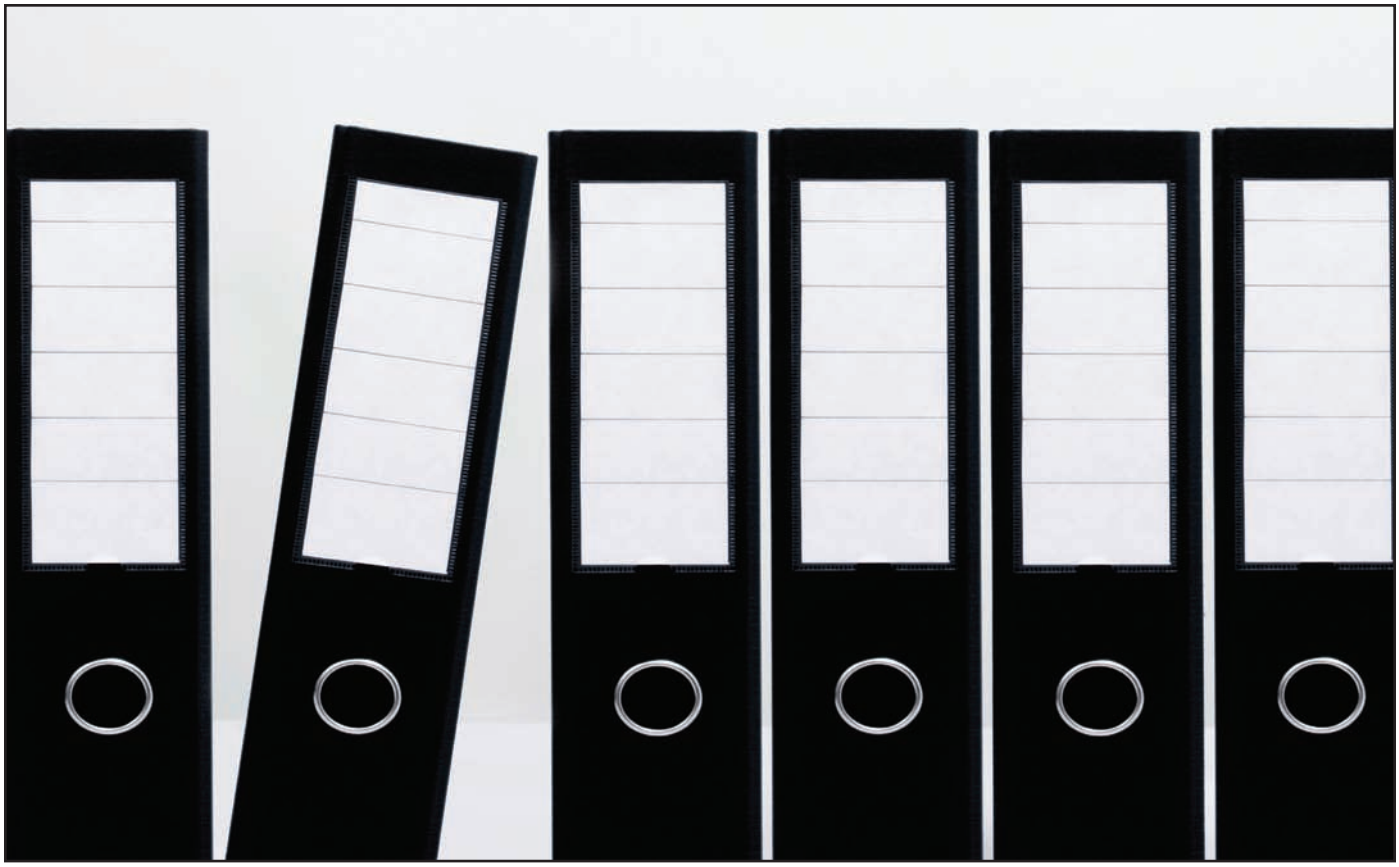

Case studies

Here are some typical scenarios where a client can benefit from a life settlement. The following case studies have been provided by Jordana Balsam, principal of New York-based life settlements brokerage firm Balsam Settlement Management LLC, and by Michael Gottdank, vice president of business development for NAF Funding, which brokers to more than 50 of the industry's largest funders and has branch offices from L.A. to New York.

FINDING THE BEST OFFER

An example of proving the value of utilizing a life settlements broker to negotiate the highest possible price for a policy is demonstrated by the following Balsam case study.

A 77-year-old woman owned a $1 million policy with a $55,000 cash surrender value. Her life insurance agent was looking to replace her policy.

The agent had an offer to him and the client of $75,000 to share, which was $25,000 over cash surrender value and in his opinion, a very good offer.

The agent sent the file to Balsam and we had limited time to submit the case around, as the offer the agent had received was due to expire and time was of the essence. Balsam submitted the case to a multitude of institutional funding sources to determine if the marketplace could present a higher offer than $75,000 gross.

Within two days we were able to attain a settlement of $250,000, which was $175,000 and 333 percent more than the original offer the agent received from his funding source.

The agent earned a larger commission and the insured was more than thrilled to receive 454 percent more than what she would have received had she surrendered her policy for the $55,000 cash value.

– JORDANA BALSAM

PATIENCE IS REWARDED

The insured/owner, an 84-year-old female nonsmoker in average health for her age, with no outstanding illnesses, had a $500,000 UL policy that had almost all its cash depleted and left her with an almost non-existent cash surrender value.

At this point, I am supposed to reveal the settlement amount she was paid and tell you how great we performed for her. The real story, however, is how this settlement transpired, the timeframe involved, and the lessons learned.

While brokering this policy to our many funders over a period of about six weeks, we forwarded the agent preliminary offers for the client, in keeping

with our policy of frequent updates regarding a case. The highest of these offers was $115,000, which we considered good, but thought would go higher as it did not correspond with our internal evaluation of the policy.

The client, however, was desperate and suggested we "close the deal," expressing that the premiums were becoming unaffordable. Her insurance agent, while adhering to his fiduciary responsibility, told the client the decision was hers to make, but advised patience. My company was certain there was more value in the policy but would of course carry out the client's wishes.

The client decided to wait a bit longer as my company tracked the policy's progress with our funders. We were not surprised when four weeks after initial bidding, 10 weeks after we had started the process, other bids started to come in, and this time the highest offer was $145,000.

The policy owner had used the cash buildup in the policy toward the premiums and as such had paid about $70,000 over the course of the contract. The settlement provided her with an approximate $75,000 return on the policy, which included a handsome commission to her insurance agent. With this settlement she was able to front-load a new policy and use the rest as gifts to her grandchildren.

But what happened? Why did these funders suddenly love this policy? Why did the offers jump so high? The answer is "The Box," which is how funders refer to the parameters that make a policy attractive to them. Seems simple, but The Box is an ever-changing invisible distinction that very often has more to do with how funders aggregate and pool policies into hedge funds than it does the normal attributes of the policy. Funders generally like to diversify the policies they pool to minimize risk. At any given time within this process a policy may or may not fit The Box.

What the agent and my company understood is that, when in a high-value transaction, cooler heads must prevail, and desperation is a losing proposition. More importantly, time is money. When a broker is given the time to do his job, the results are always win/win.

– MICHAEL GOTTDANK

REPLACEMENT

Another popular reason for a life settlement is for replacement purposes. Often, an existing life insurance policy that was issued years ago is no longer performing up to par or no longer meets the insured's estate needs. There are guaranteed policies on the market that were not available even as recently as five years ago. The insured and the financial representative both have a win/win situation when the policy is sold to the secondary market. The insured receives an amount of money higher than he would have if he surrendered the policy, and the proceeds are used to replace the policy with a better performing or more applicable one. The agent earns a commission on the settlement as well as a commission on the replacement insurance.

A perfect example of replacement is the following:

An estate planner was concerned that his 81-year-old client was paying very high premiums to support a $7 million policy.

Her husband had passed away and her children were grown. She needed life insurance for estate planning purposes and although she wanted the coverage, she did not want to continue paying such high premiums.

Her surrender value had accumulated to $800,000 and she was contemplating surrendering the policy and redistributing the cash elsewhere.

Her estate planner understood the benefit of life settlements and contacted Balsam to discuss the case.

We immediately began processing the necessary documentation and submitted the policy for pricing to multiple institutional funding sources.

The client received a settlement of $1.5 million, 188 percent higher than her cash surrender value. Her estate planner put the proceeds directly into a new $15 million universal policy — double the face amount — that cost less to support with the proceeds than her previous $7 million. Her children were thrilled with the new arrangement as they now had double the coverage and her estate planning needs were more than sufficiently covered.

The estate planner earned commission on the sale of the $7 million policy as well as the issuance of the new $15 million policy.

–JORDANA BALSAM

TERM POLICY SETTLEMENT

Another reason for a life settlement is when a policyholder owns a term policy that is on the verge of expiring.

An example of this is when an agent approached us regarding his client who had purchased a 30-year term policy with a face amount of $3 million when he was in his 40s to protect his children and have coverage for his family. At the time, term was the only type of insurance he could afford. The policy was approaching its term expiration.

The insured was now in his 70s, had some minor health issues and he was considering converting it to a universal policy.

We were able to attain a settlement amount of $400,000, which was 13.3 percent of face, a high percentage for a relatively healthy individual of his age. The agent earned commission on the sale of the existing term policy life settlement as well as a significant commission on the term conversion. His client received money for a policy that otherwise would have had no value after term coverage expired.

–JORDANA BALSAM