Audio file

[KN7 - Tama Klosek.m4a]

Transcript

Hello and welcome to the Newton Knowledge podcast. My name is Steve Target and I'm the managing partner of Newborn advisors. I'm joined today by my colleague Mark Singer, Mark. How you doing today?

I'm doing great, Steve. How are you?

I'm doing fantastic. Thank you very much. Well for our. Loyal listeners and for those who are joining us for the first time, the New Knowledge Podcast will provide meaningful content to our valued advisor, community and clients who are interested in learning more about sophisticated insurance related topics. Focusing on estate planning and executive benefits and during our podcast, we focus our discussions on content that will deliver unique insights into the people, processes and products that make our industry. So critical so. For those of you. Who? Don't know Newton ones, a national life insurance planning firm. We deliver customized insurance solutions structure to help clients and their advisors engaged in solving complicated estate planning, wealth transfer, business succession and executive benefit challenges were a member of the M Financial Group offering our clients access to the nation's most prestigious. Barriers and innovative products available only through our network now under our program and it's really my pleasure today to introduce Tama Brooks Klosek, who's managing member at Klosek and Associates based in Houston, TX. Her practice is a tax practice focused on both domestic and international aspects of the state planning family, wealth transfer and tax exempt. Organizations she received her undergraduate degree from Columbia University and her law. Degree from Harvard. Has received many awards and has been recognized as an outstanding attorney during their career by both her peers and clients. And just to mention a few awards, Tama forgive us as we complement your your successes so far. Some of the rewards and awards are the Chambers ranking high net worth private wealth Law, Texas 2020 and 21 Texas super lawyer. Texas Monthly 2015 to 2021 Tech top lawyer H Texas magazine, November of 2020 and Texas Rising Star in the Texas Monthly in 2004, 2007 all the way through 2014. Tama has significant experience in income and nonprofit, including private foundations. Estate Gift trust and generation skipping transfer taxation and multiple prop marital property planning. She's advised many clients on domestic and international tax matters. Consults on divorce matters in connection with complex marital estates and in addition to her legal practice time as managing partner in a national life settlement originations. Tray LED Life Settlements LLC, where she. Works as part of an experienced management team to assist high net worth and Ultra high net worth clients of trailer life settlements to officially exit life insurance contracts on a favorable basis through sales to 3rd party institutional investors when life insurance is deemed no longer desired or advisable. And so that's our topic today. The life settlement business, I have to admit that. It appears to me it seems to me that the topic of life settlements has really taken off and is much more wildly widely discussed today than in years past, as you'll learn today, the actual transaction of the life settlement is is much more complex. Indicated and so it truly requires the oversight, expertise and advocacy of the right advisor team. So that's going to be our basis of our discussion today. And now I'm gonna flip it over to mark one of you kick off. Our conversation with him.

Yeah, no, Steven and I think to sum up the intro you provided one time as time is a big deal and the trust and estate planning right as. Well as the. The Life settlement world. So we're extremely humbled to have her in the program and I have the honor to watch her presentation at the Estate Planning Council, Delaware a few months back. And it was phenomenal, along with the topics she went over in life, settlements like, you know, right away. I was like, we have. We have to have only the podcast. So I connected. With Mike Gordon, friend of the firm at at Gordon from Harris and Memorial, and he, he looked us up together and it's a great way to kick off the New Year so to no further ado. Tama, how has your your New Years been? How how will your how?

Everything's been great. Thank you so much and thank you very much, Steve and Mark for the very kind introduction and I'm really excited. This is only my second podcast, but this is a very, very relevant topic and I appreciate the opportunity to share. It with your audience, so thanks.

Great. So let's get into it. Life sentence. What are they? We we've dealt with a couple of them. I know Steve specifically. One or two it. But really in a high level fashion, if you were to tell someone passing by what what is? The life settlement.

So my settlement is a sale of an existing life insurance policy to a third party for an amount that is greater than the cash surrender value in general. And what's interesting about life settlements is most advisors insurance policyholders not, not insurance advisors, but most other advisors. So, like myself, the state cleaning attorneys or accountants or private wealth advisors that are not working in the insurance. Place really don't know anything about life settlements. They if they do what they know is old or bad or dated. But most people actually don't know that life insurance is property that can be sold, but it can be. And the law supporting that in the United States is really over 100 years old. And and there's a Supreme Court case that is directly. Point. And so historically, whereas the owner of a life insurance policy that was no longer wanted or needed really only had two options right to either let the policy lapse. So you got nothing after paying the premiums for all of those years or surrender it to the insurance company for its cash surrender. Value. So there's a vibrant secondary market for existing life insurance policies, and it provides this third alternative that as I mentioned, most advisors and clients are completely unaware of. And let's actually sell the policy to this third party again for less than they expected death benefit, but more than the cash surrender value. Life settlements are three decades old. So not a new idea.

But it has.

Is the market and and I know we're planning to talk about that later, but life insurance, the the real take away is it's not a buy and hold or set it and forget it, a state planning strategy, it's something that needs to be managed with sophisticated advisors involved like mark, like you and Steve and estate planning attorneys, accountants, Wealth advisors to really understand. How a contract mature. 1st and what's the continued benefit or need of the contract in the estate plan or in the overall wealth plan? And then to decide whether or not it's something that should be maintained?

So I'm sorry, when did life settlements come before us? Was it you said 3 decades ago or well?

So the.

Market itself is about 3 decades old, so the idea around life settlements is not a new idea. But what's happened is about 25 years ago or so talk about early 2000s. There was really no regulation, so maybe you know three or five of the states in the United States were regulated. It was really the Wild West.

What you'd have is somebody who was ill needed funds, wanted to sell their their policy. And there was a group of investors that would offer them some amount that was really not related to the actual value of the contract. There's just some amount that they would take, and so oftentimes the return to the investor. Was absolutely extraordinary. The amount that the seller received was really pathetic relative to what the true actuarial value of the contract was and the fees were really high and often not disclosed. So with the influx of regulation and now 43 out of the 50 states are regulated, there has been an influx of. Trusted capital. So huge Wall Street firms. Right. So it's no longer what I used to. What I choke about in my presentation that that Mark heard is it's not the Gambino family office here with the charging on your back if anyone from the game you know families listening. Please don't put it. But what you have here are really some of the most sophisticated Wall Street firms, TPG, Apollo, Blackstone Beta Capital, which is a large firm that's based in Austin, was one of the largest fund purchasers at its peak, I think was about a $6 billion investor. You got these, really. Huge, very sophisticated investors that are bringing trusted. Capital and real process along with that there was disclosure, right. So the consumer now is very protected and that's what's brought the Wall Street. Capital because the. Wall Street Capital doesn't want to be on the. Front page of. The Wall Street Journal, right, with some announcement. Apollo takes advantage of senior citizens by robbing them of their insurance. What we really. Want to see? On the investor. Side right is a lot of protection around the consumer so that we can feel we've abided by a well known set of rules and so the consumer is protected, they understood what their options were and the investor is is similarly protected. So and there's actually a clearing firm that that's required to regulate it in each state that actually regulates light settlements. And so that's called a life settlement provider that's not necessarily the purchaser, although life settlement providers can also be associated with the ultimate investor purchaser that owns the provider. Sometimes a life settlement provider can represent multiple purchasers, and so states vary on how many providers are actually licensed to purchase. Let's just say they're somewhere around 20. You know, in in a given state, but they may represent more than 20 investors. And unlike a title company in a real estate transaction, the provider only represents the investor. They are not a neutral party and so the party that really doesn't have representation unless they work with a trusted advisor is a seller. That's kind of the the way the transaction proceeds. So the seller, which might be an individual. Policy holder, or more than one individuals, could own a single policy or trust could own a policy, will go ahead and sell the policy to. Through the provider, the provider then pretty much simultaneously transfers the policy after it's closed and cleared over to the ultimate investor, and that investor then takes over all the responsibility for paying the premiums and the ongoing maintenance of the policy and the seller, whether it's one or more individuals, or trust owned. Or maybe it's company owned. We'll go ahead and receive. Usually a love sum, cash payment and the transaction is.

Since I'm, I'm glad you you organically went into regulations because that's the first thing that comes to mind looking at the consumer when it comes to to life settlement transactions, as you know what's in our best interest. I want to get back to regulations, but before we do that, what types of circumstances would would we be looking for? Should advisors be looking for to say you know what? This may be a potential life settlement opportunity.

The first thing that you want to look for is you want to make sure that the coverage is something that's going to be maintained through life expectancy. So is a policy if the if the premium payments that are being made are are just maintained at that. Is this policy vulnerable to that? So that's where Mark and Steve advisors like you guys that are really engaged advisors and we work. I've worked a lot with the unfinancial growth both on my state cleaning side and also on the settlement side. And you guys really work for one of the with one of the top firms in the country as far as continued advisor engagement. I'm a big fan of life insurance, that's how I. Ended up in the settlement side of this because I used life insurance extensively in my estate planning. Practice. And so when we. Thoughtfully place insurance on the front end and the client really understands how the premiums are going to be paid and maintained and when that's done. And it still doesn't mean that you don't get to a place in the contract where for whatever reason, because you're intentionally underfunding the contract to keep it lower cost at the front end or because maybe somebody wasn't working with a really good advisor like Mark and Steve and the insurance was not appropriately illustrated from from the outset. Whatever the reason is. There comes a point in time where it's possible that the coverage is vulnerable to lapse if significant premiums are not going to be paid in. Sometimes that's a known factor, as they mentioned, sometimes it's a factor that's a surprise to the to the policy. And so that's one situation where we see a lot of our clients. So most of our clients are very wealthy families, clients who are using life insurance for estate planning purposes and the edge of point where they realize this insurance is starting to get very expensive. And so if we don't increase our premiums or even. If we keep paying the existing. Premium we are in a place where it's possible that we could be trading dollars for the insurance carrier, right or worse, coming out of pocket has the policy underperformed. So policy audits and working with really top advisors on those policy audits, which I just want to say, may not be the life agent. And I'm going to come back to why it may not be the life agent that sold the policy. Is really important so. Current in force illustrations looking at the premium history, looking at both the guaranteed and non guaranteed portions of the insurance illustration. If your carrier is still even willing to illustrate the non guaranteed portion is really important on the financial side. Now on the other side, there may just be some other things that have happened right other estate planning. Other wealth transfer making the insurance no longer necessary, right? We were using. This when we didn't have liquidity for a closely held business. Now we sold the business, had a lot of liquidity, liquidity purely do not need to maintain the coverage. I've had clients that have no longer wanted to benefit the beneficiaries of that insurance trust. They are not looking to go ahead and continue to pay in, and so there's there's a host of reasons. But for whatever it is, if the contract no longer makes sense, financial sense to maintain or it's no longer wanted or desired. And I also want to say. And fatigue is very real. Once somebody's been paying into a policy for 20 years and they feel that they're very healthy and they're going. To live a really long. Time they start thinking why am I doing this? Why do I really need this insurance and they're some of them are just kind of exhausted with pain, but for whatever reason it is. This presents an opportunity to exit the contract on a far more financially favorable basis than a cash surrender, right? And as we know, a lot yields nothing. I want to go back to why the life. Agent who sold the contract may not be the right first person for the client to reach out to you, because there are some life agents. Unlike the Financial Group LIFE agents which work with. Every major carrier in the country, there were some life agents that only work for single carriers and we know for a fact that there are a number of single carriers that prohibit their life agents from talking about life settlements, right. And that's because the life insurance company loves lapses. They love lapses because lapses are. Table you don't have to go ahead and pay the death benefit, and so they do not want their their sales force out there telling their clients that you can actually sell this contract to an investor who will maintain. It so that. The Life insurance company actually has to pay that death benefit, so there are some agents. Again, if somebody has purchased. Insurance from an agent that represents and only works. For the single carrier. That's the agent. I'd be very cautious about going back to in order to advise on the life settlement, because that's the agent that could actually lose their job for their carrier if they talk about life settlements. And it's really unfortunate because life settlements are pretty much one of the most consumer centric things that have really happened to life insurance.

Well, I never knew that and that's very imperative for the consumer to know life, settlements, the the markets been increasing. How come what's your?

Yeah, and. And that relates to the regulation. So going back to that, there's no very confident investor market. So it's really evolved and it's a vibrant market. As I mentioned, it's backed by multibillion dollar investment firms. And so these large purchasers and one of the largest purchases, Coventry and I, I just want to say that if you, if you turn on the. News or you listen to any morning shows. The Golf Channel on CNBC, on the radio. You're going to hear about Coventry. So Coventry is a buyer. They're a provider and they're not always an investor. And so they do go ahead and and buy. But oftentimes they sell to investment funds. And I don't know. Too, too much about Coventry's business, but they are a direct purchaser. Other direct purchasers access the seller market through either their own provider or working with another provider, and so some of the big funds, as I mentioned, Apollo, KKR, Blackstone, TPG, Stone Point, McKenzie actually was a huge investor in the life settlement. Base and I believe exited last year hundreds of millions of dollars in in a sale of of their portfolio in the tertiary market. And so this. Market in 2019, I think was about $25 billion of invested capital and it's forecast to be about a $60 billion invested capital business by 2025. And the only way that market is going to get there is if policy owners right, the sellers, the people that own the product are willing to sell, they say it's a little bit. Like 70s and Christies at auction, and we use auction for our clients that have very valuable tangible personal property, Subbies and Christies does not have anything to sell. If wealthy individuals don't wanna part with their prop. So that's similar to the life settlement market. It really relies on individuals being willing to sell their valuable asset. That is the insurance policy.

Would you say the pandemic has affected not just the state planning, but life settlement specifically?

So I think what's happened with the pandemic is, well, keep their interest rates low and low interest rates are actually where they've really. The insurance carriers as as you and Steve know, making it more challenging to have competitive product and keep pricing down. It's actually something that has propelled the life settlement market. So prolonged low interest rates means that the alternative investment right when you're looking at what is the rate of return, if I'm an investment fund investing in life settlements. What's the rate of return that I need to deliver to my investors? It used to be sort of as we go back to the Wild West, the hurdle rate, what they were trying to go ahead and yield from these purchases was, you know, 20 or 25% return really, really huge returns. Now we're seeing the investor being willing to purchase an insurance contract with an estimated rate of return somewhere between 8:00 and 12:00. Percent that is just a tremendous benefit to the seller because they're willing to pay more for these contracts. So low cost of capital has also meant that borrowing cost rate on the fund side or lower, but it's also lowered what is the comparative alternative investment class. I'm sorry, alternative investments that the fund is looking at when they're saying Carl is an investor going to view our funds. So, so the result is we can pay more for these policies. There is tremendous tremendous competition right now for the best paper. So the clients that we have, the clients that we work with and we generally only work with with clients that are selling policies of the million. But most of our clients, their death benefit in their contracts are are are much higher than that. That's the type of contract. That these institutional sources are really looking for right now, so pandemic has really puzzled the insurance companies. It's also increased death benefits so visibly non COVID related deaths have increased significantly. Over the last year. Yes, and this is statistically significant, but on the life settlement side, it's really been something that has. Again, with these prolonged low interest rates really help the market.

OK, so say an opportunity arises. What what? Would be the. Key things for Steve and I, or an advisor to be cognizant of when there is a life settlement opportunity in working with Life Settlement advisors and firms, which should we be aware.

Well, so #1 the most important thing is when you're considering going back to the life agent. Of course you wouldn't see might be the life agent or you might be contacted by somebody else to take over servicing the contract. So so you want to make sure if you're if you're starting point for this inquiry is the life agent that the life agent is permitted and not prohibited. From working on a life settlement and we suggest that the direct purchaser market of course be avoided and the reason we say avoid the direct purchaser market is because at least in our experience. The results from competition and a real auction process that's conducted by a knowledgeable life settlement advisor, like my firm, are just absolutely multiples. And I'm going to give you a fact pattern. We have a new client who came to us recently in 2021, sold $1,000,000 policy to direct purchaser for $45,000. We believe that that policy was probably worth $400,000. So we are talking significant multiples of returns. So we suggest that a life settlement broker be engaged and only one broker. So this is sometimes and I talked with folks, even folks that work at investment advisory firms about how they approach the life. Government market and one gentleman told us that, hey, I just work with a handful of brokers and they get them all out there work. For me, that's really not the right approach, because if you're not working with one broker, there's not one voice in the market. This is a very, very tight and small market. And so when the purchaser side thinks that a broker doesn't have control over the file and that that file is just maybe being shopped for informational purposes, they're not really engaged in the process and you're not going to really get their best fit. Some of them won't participate in the process at all. The other problem with using multiple brokers is that multiple brokers sometimes approach getting life expectancy reports which are part of this process in a different manner. And if you get a life expectancy report, that's a bad report or one that ends up what we call polluting the file, that's potentially detrimental to the sale. Because of course, shorter life expectancy report is one that's going to yield a higher purchase price. The other issue with working with life settlement brokers is these commissions can be very high. So some of these commissions or some type of percentage of the death benefit really don't relate whatsoever to the amount that is. Received by the. Seller. So you'll see that ranging from 8 to 10% and we've seen it represented that that's customary in the market. I'm going to tell you that that's not customary in the market, but there are some brokers that charge that way and others are charging fees that are somewhere because some of these fees are layered between 30 and 35% of the gross sales price. These can be extremely high. My firm charges fees that we feel are extremely competitive when we work with financial institutions and we have incredible financial institution partners. We work on an institutional pricing basis. But the take away here is that fees can be very high. They should be negotiated and agreed to in advance, and if a broker is not being upfront about the fees, that's a problem. So we only work with fee agreements and we make sure that everything in our process is extremely transparent. The other take away from. Interviewing the broker in the space is. That there are some brokers that. Really don't work a full auction. Process. There are a few reasons why they do that. Sometimes they just have their favorite purchasers and they just go to that handful because it's easier. Some of them are actually not able to work with all of the purchasers in the market for business reasons. They've had a bad relationship. There was a purchaser that hasn't liked working with a broker, hasn't felt that the process is. Transparent or, you know, clear or they've had some disagreements. And so there are some purchasers that, including some of the largest purchasers I wanna say in the market that refuse to work with some broker. And so it's important to understand how the file will be shopped. Will it go to the full market? And if every purchaser won't see this, is there a reason that it's not being taken to the full market? And by the way, sometimes there is a reason to not go to the full market and ourselves. We have reasons that we don't always go to the full market depending on what the fact situation is. So again. Direct purchasers are gonna try to tell the client. Oh, don't go to a broker. You'll have to pay these high charges. You can cut out the broker. We'll just give you the best price. The fact is, until you go out to the full market and really go through a full process with a knowledgeable broker or advisor, you're really not going to know what the real market value is. So competition is always better.

Time that you brought up fees and commissions. Is that part of regulations?

Yes. And so there are some states that regulate the fees and the range of fees. There are other states that and and and the states that regulate for the most part require fee disclosures, but some of them are hard disclosures. Some of them are soft disclosures. And so my advice is regardless of what the state requires. Mayors in the sale process, so the advisor, the margin, Steve, that's working and helping you know, Shepherd the client through the process and and we love working with life agents that have close relationships with the clients. It can really help them understand the process. So when you're part of that process, you're going to always make sure that those fees are disclosed, but. The take away for all of the listeners who are thinking about this, or if it's other advisors that claim to help their clients consider a life settlement transaction, you always want the fees, you want them upfront, you. Want them in writing?

Everyone on the call understands the advantages of life insurance and the the tax advantages specifically that come with life insurance policy, how our income tax consequence is handled with the life insurance settlement.

When you go ahead and sell a life insurance policy and and this is something that was actually clarified under the Trump Tax Act. There's there's a. 2009 revenue ruling that's really on point and that's 2913. That talks about how a life settlement transaction is taxed, and in general the gain will be long term capital gain unless the cash surrender value is in excess of the premiums paid, less amounts received, in which case only that difference would be ordinary income and our fax patterns. We we don't often see a cash surrender value that's in excess of the premiums. What the Trump Tax Act did is it actually clarified that the basis in the contract is really premiums paid without a reduction for what is described in that 2009 revenue ruling as the cost of insurance. And so if you're trying to estimate what the tax result will be and again if your cash surrender value is not greater than. Unions paid and if there have been no amounts distributed to the policyholder under the contract, you can think about the entire proceeds being long term capital gain. And with respect to the settlement broker fee, that's a fee that's. Actually, essentially becomes a tax deductible fee because it is paid by the purchaser at closing and it is not something that is deemed to be received by the seller and it's not reported on the sellers 1099. So the life settlement broker gets a 1099 for their Commission and fee received and. This seller goes ahead. And receives a 1099 for their gross sales price. And so that's the the sort of high level tax analysis. And again, if there's a very high basis in the. Truck and a low cash surrender value. We've been in that situation many, many times. Sometimes there's not an incredibly large tax consequence to the sale, but there is an amount that's received that's really multiples of what would have otherwise been received had the policy just been surrendered.

So when qualifying or looking at a life settlement opportunity, does the insured have to be, for lack of better terms on their way out, not in the greatest of of shape or sick or however you want to?

No. In fact, there are what we call the healthy funds. And so there are a number of funds that look to purchase policies even if the insured isn't forecast to die within. Again, the next 6 to 8 years and would love to go through a quick case study of a client of ours that had a very. Long life expectancy. This was a client of a very well known national life investment firm that I've had a wonderful relationship with in my estate planning practice and that we've been working with and helping to bring the life settlement strategy to their clients. And so this client had an underfunded universal life policy and it was held in a trust and. Unfortunately, this was a a Voya policy and it was not guaranteed to provide coverage. Pass each 85 without very significant premium increases. The insured at this time was was 76 years of age, so not old and not sick at all. In fact, her daughter was the trustee of this Life Insurance Trust and. In one of our first conversation, she said. I'm really worried about doing this. My mom is really healthy. I think she's gonna live a long time and that's one of the reasons they were looking at the settlement. But it was one of the reasons that she was concerned about somebody holding life insurance on what she thought was going to be a very long time for her mother's life. Again, we assured her. These investors are not thinking, you know, family office. And by the way, that's not uncommon. Question about how this information received is stored and used and and there was a lot of confidentiality around the insured around their personal information and the concerns. About their life not not ending naturally or are not ones that sellers should have. So in any event, the financial advisor here had actually been doing policy audits. They identified this as a risk, and so the total fees value of this contract is a $10 million policy. The premiums paid in were about $1.7 million. The cash surrender value is 1.2 million and I recall that the daughter who's the trustee said. We think this is a terrible investment. This is a very wealthy family and they just felt like, wow, this was a really bad deal. We paid in $1.7 million and all we're gonna get back unless we just keep paying is 1.2 million. $10 the claim had been paying to this insurance stress $75,000 a year, and in order to maintain the coverage through her life expectancy, she was going to have to increase the premiums to $224,000 a year. You know, she actually really didn't love paying the 75,000, and she absolutely didn't want to pay the 224,000. She looked at her life expectancy. She was incredibly healthy. She had about a 15 year life expectancy. And remember, when you talk about life expectancy, that's what 50% chance of living longer than 15 years. So it was well before the potential for lapse, which was going to be at age 85 and we had a 76% chance again that the client was going to actually live before age 85. Our repricing analysis indicated that we were absolutely. I mean be able to receive an amount that. Was greater than cash during your value. And also greater than the premiums paid in, but at how much? We didn't know until we took it to the market, we ended up selling this contract. The opening bid was $1.5 million and the contract ended up selling for over $3,000,000, so slightly over $3,000,000 and notable in this fact pattern is that the purchaser of. The policy, the ultimate purchaser, was also the opening bid at a million and a half dollars. And so this really demonstrates what happens when there's competition, right. The opening purchaser offered a million and a half. Dollars. And guess what? If there was no other competition that was higher than the cash surrender value, there might be a seller that's willing to negotiate and sell at that place. But by working with our firm and working in a really full vibrant option process where we did go to every purchaser in the market in this fact pattern, we did go to every license provider and it was actually a Florida. Based we were. Able to double the opening bid and again this was multiples of cash surrender value and was over $1,000,000 over the amount premiums paid in. And so this was a really great result. The client was thrilled and she really loves her advisor by the way. They love the advisor at this advisory firm who really took something that they felt was negative. About investment, a liability into what were dollars in the pocket for the family so that this was trust owned and so the trust ended up receive. I mean this the entire amount in trust. It was a grant or trust. And so there was some income tax consequence here, right, because our gross sales price was actually greater than the premiums that were paid in. And so we did have some long term capital gains there that's paid by the grantor. So outside of trust. So the trust was not depleted, but really terrific. Results when you take away something that's negative, that's a liability that's viewed as something that we just made a mistake here, or why did we do this? And by the? Not only for our clients feel that the life insurance is in stake, a lot of our clients feel like this was something that we just no longer need. We knew exactly what we're getting into. This client had a little bit of fires remorse, but in any event it ended up being incredibly positive process for them. And now the investment manager actually has several $1,000,000 more under management and is able to go ahead and reposition and place the assets and investments. That the family today really well.

I think that's a great case study and a great story for the consumer, especially with a 15 year life expectancy and then walking away with three million after the acquisition and essentially the purchaser bill on the hook to pay those premiums for another 14 or 15 years or whatever it may be, if there's. If another question then in regards to the premiums being paid is is it possible for premium finance? Policies or or even split dollar financing? Are they candidates for life settlements? As well.

They are and we actually have worked on a premium financed case and it was actually a case out of California and Napa Valley. Wine maker unfortunately had been sold an aggressively illustrated premium finance contract and he was in his 70s, which is really not the optimal time to go ahead and finance premiums as as you guys know. Unfortunately, it was a five year loan. The policy was significantly underwater. He owed a couple $1,000,000 on the loan and the the policy I believe was only worth around. Maybe it was around 1.2 or $1.3 million ended up selling it for over $4 million. He had guaranteed the loans, the loan. To finance the coverage with his with his vineyard was looking at foreclosure, was in a very bad situation, was actually looking at potentially suing the agent that that wrote the. Coverage, as we all know, litigation is something that takes years to come to fruition and it may not be found in your favor. We were able to return a significant amount and after paying off the loan, he ended up with $1,000,000. He thought that this was one of the worst things he ever did. Great remorse here for getting involved in in this policy. Innovation. And when we asked him is this. The the worst. Financial decision you've ever made, he said. Absolutely. And when my partner said, well, the worst financial decision you ever made actually ended up resulting in A7 figure return over $1,000,000 back to you, we were able to at least turn it around and and he agreed, but had the advisor not heard. About the life settlement strategy had not been at this presentation where my partner was speaking. I mean, this man was literally looking at losing his vineyards. So absolutely an opportunity for premium financing, whether it's something that just should wants to be unwound or something that needs to. Unwound. We've also worked with a number of clients that. Have that have. Had loan arrangements or split dollar financing and and usually the those names are something that can be released at the closing and so those are absolutely policies that can qualify for a life settlement.

So the one case study you brought up policies on the grantor trust, which brings brings up the next question. Are there any special considerations for life settlements or insurance policies held in Azure?

Yes, my clients, when they are acquiring life insurance and they are establishing the Life Insurance trust, they very rarely appoint as trustee of that trust somebody with any significant amount of knowledge about life insurance, amazing how that happens. It's usually some friend or family member who's tapped and I like to say it's the most unglamorous. Of in the world to act as trustee of an unfunded life insurance trust because the trustee actually has a fiduciary duty to monitor and manage policies held in the trust. So even if the life insurance trust has language which is this type of exculpatory language that. Says I as trustee, you don't have to make sure that that the Grand Tour of this trust contributes any money to pay the insurance premiums. And I don't have to see to it that those premiums are paid. I'm. Totally off the. Hook, we've all seen that type of language, but the fact is that the trustee has a duty to inform, and they have a duty to be informed themselves. So if the trustee is not doing regular. Policy audits and is not advising the Grand Tour and the beneficiaries about policies that are vulnerable to lapse and if coverage is lapsed that otherwise could qualify for a life. Comment that trustee might have some significant fiduciary liability, and so trustees should make sure that they obtain regular policy statements and enforce illustrations. They should be working with the life advisors, the mark and Steve on doing those audits, understanding and making sure how long the coverage will will extend to. If premiums continue to be paid as they are and what might need to be required for the coverage to extend past a lab. Point and if that coverage is vulnerable, of lapsing within the life expectancy of the insured, this needs to be very clearly communicated to the insured grantor the beneficiaries. Everybody needs to understand this, and they need to work to go ahead and find a strategy, whatever it is. Do we want to maintain the coverage if we want to maintain it? How are we going to maintain it if we? Don't want to maintain the. Coverage does it qualify for? That, and by the way, generally life settlements, I said somebody doesn't have to be completely sick. Healthy people qualify for life settlements, but usually the age range is over age 70. I'd like to say it's probably around age 75 or older, but we start looking at those opportunities around age 70. Unless somebody has some significant type of health impairment. So somebody is under age 70 and. There is a health impact. They might have a policy that qualifies for settlement also. I wanna point out that that term insurance can also if it's convertible permanent coverage can also qualify for a life settlement and we worked with a client that was in their 60s, was diagnosed with a significant health problem, not going to result in immediate death. That that person was able to actually go ahead and take turn insurance, which was literally worth $0.00. Convert it to a permanent policy and sell it for hundreds of thousands of dollars and was actually really because, of course this person was now and and. They couldn't afford. Afford those conversion premiums, by the way themselves to maintain the coverage it was going to be very costly coverage and so something that you may not think qualifies for a life settlement again with the right fact pattern. We usually see mostly universal life contracts are usually the types of contracts that we see in the life settlement space, but just want to mention that term insurance is something that can qualify as well.

I'm glad you brought that up. That's a very interesting point. I didn't even think of time insurance. But you're saying they would actually help facilitate in the conversion process and take over those premiums from a term to term product?

Right. That's absolutely what happened in our fact pattern. We had a 66 year old and it was a million and a half dollars worth of term coverage that obviously had no cash surrender value. The conversion premium was close to $100,000 a year and the client really didn't have the resources to pay that cost. And again the ongoing. Premiums and actually this is a case that we took over from another broker. This was actually shocked by another broker and the maximum offer that was offered in in their process was

$200,000. They will refer to our firm for another opinion. And after going through our auction process, we ended up selling the coverage for 400. And $95,000.

Well, so you go from nothing, not just to something, but something of significance.

Significance where somebody is obviously not an old person with still a working person and was able to really go ahead and and use those phones and those are phones that are going to be able to be. Used by their family for support.

Tammy, this has been great. We're coming up on our time and we could keep going, I'm sure for for another hour or so. But I just wanted to say thank you so much for all the information you shared and all the prep work you've done. We really appreciate it. And Steve, I want to, I want to open up to you if you have any additional questions for Tom.

No, I just, I I think that as I mentioned earlier, we're really happy to be affiliated with such professional people in the community, in town that you obviously are one of those professionals. So thanks for being with us. Let's have a great 2022.

I just have a couple of concluding thoughts, a couple of statistics that I think might might shock the the listeners. An estimated 88% of all universal life insurance policies are surrendered or lapse before they pay a death benefit. And the reason that happens really is because clients do not know. And their advisors do not know that life insurance is an asset that can be sold. Last year, there were half a million policies that were lapsed or surrendered that would have qualified for a life. It that they were lapsed or surrendered and only 3200 policies sold in the life settlement market. And so that's just showing you the staggering information gap that exists. And so thank you so much, Steve and Mark for inviting me to talk today because educational information like this that shared with the sophisticated. Client base can really. Help right this ship and it is an education and informational issue and so I hope everybody who has an opportunity to listen to this podcast takes this to their clients, takes this to other people at their firm because you can only add value in this situation. And again it's an information gap and we really hope to close it. And really look forward to hopefully working with you, Mark, Steve and anybody else who is listening to the podcast who wants to have some additional information about life settlements. We're here and welcome the opportunity to be a resource. So thank you.

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