



**SUFFOLK ACADEMY OF LAW**  
*The Educational Arm of the Suffolk County Bar Association*  
560 Wheeler Road, Hauppauge, NY 11788  
(631) 234-5588



## **LIVING BENEFITS & TAX ISSUES OF LIFE INSURANCE**

### **FACULTY**

**Henry Montag**  
**Stephen Jay Shorrock**  
**Gary B. Schreiner, Esq.**

### **Program Coordinator**

**Eileen Coen Cacioppo, Esq.**

**May 22, 2019**  
**Suffolk County Bar Association, New York**

## **Henry Montag, CFP**

Henry Montag, an Independent Certified Financial Planner, has been in practice since 1976 with offices located on Long Island, NY. He is a principal of The TOLI Center East, providing independent consultative fee-based, individual & Trust Owned life Insurance performance evaluations for high net worth clientele, their trustees, advisors and Family Offices.

Authoring many articles including the *New York State Bar Association*, NYSSCPA's *Tax Stringer*, *Tax Facts*, *Trusts & Estate Magazine*, & *Accounting Today*, Montag has provided CLE & CPE credits at lectures to the New York State Bar Association, the New York State Society of CPAs, The American Institute of CPAs, and the National Conference of CPA Practitioners. He co-authored an American Bar Association Flagship publication titled; "*The Advisors & Trustees Guide to Managing Risk & Avoiding a Client Crisis*" Jan 2017.

Montag is a source for prestigious publications including The Wall Street Journal, Investor's Business Daily, Investment News, Long Island Business News, Wealth Management, Trust & Estates, National Underwriters Tax Facts, and Financial Planning magazine. He also appeared on Fox Business News, News 12 Business News, and 'Wall Street Week.'

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Gary Bates Schreiner received his B.A. in Political Science from The American University in 1974 and his J.D. from Brooklyn Law School in 1977. He was awarded his Accredited Estate Planner (“AEP”) designation from the National Association of Estate Planning Councils in 1995. He is proud to have been designated a Super Lawyer for the last six years.

Before entering private practice in 1988, Gary served as a Trust Officer with Chase Manhattan Bank's Trust Department for three years, U. S. Trust Company of New York's Personal Asset Management Division for five years, and The Bank of New York's Personal Trust Division for three years. Gary's responsibilities at Chase were in Estate Administration; at US Trust he administered hundreds of personal Trusts for which the Trust Company acted as sole, or co-trustee; and at the Bank of New York Gary assumed new business development responsibility, providing Estate Planning for high net worth branch banking customers.

Gary left trust banking to found and build a private practice focusing exclusively on Estate and Business Succession Planning, coupled with Estate and Trust Settlement and Administration in the New York metropolitan area.

Gary is a member of the New York State Bar Association Trust and Estates Section, American Bar Association Section of Real Property, Probate and Trust; Nassau County Bar Association; and the Nassau County Tax and Estate Planning Council.

Gary has dedicated decades of service to the poor and disadvantaged in his North Shore community through his involvement with the Society of St. Vincent de Paul.

Born and raised on Long Island, Gary was the oldest of six children. Since his marriage in 1976, his wife Gail, and eventually his two daughters Erin and Liza are his best teachers and role models. You will find Gary and Gail whenever possible sneaking away to their home in Saranac Lake, New York, feasting on the Adirondack environment where canoeing, cross country skiing, hiking and porch sitting are attacked with Gary's usual focus and commitment.

Gary is a frequent lecturer to consumers and his fellow professionals in the estate planning arena.



**Stephen Jay Shorrock**

52 School Street, Northport, NY 11768  
631-261-9364 home; 516-428-3731 cell; [steve@lifeventurescorp.com](mailto:steve@lifeventurescorp.com)

## **Executive Profile**

Results-driven executive with extensive experience in managing a dynamic life insurance company and start-up firms, leading people and growing an organization. Possesses a unique skill set of sales/marketing, product, finance, administration, and systems. A strong and visionary leader with superior organizational, business development, and relationship skills.

## **Areas of Expertise**

- Market product development
- Life settlements
- Process and systems design
- Product positioning
- Relationship building
- Managing growth
- Financial organization
- Distribution system development
- People development
- Planning and implementation
- Decision-making
- Organizational design

## **Professional Experience**

2006-present

### **LifeVentures Corp, Veris Settlement Partners, Northport, NY** *President and Director*

- Created start-up company as President of LifeVentures Corp, a marketing-focused organization providing innovative product designs and marketing concepts to distribution sources including insurance agents, CPA's and estate planning attorneys.
- With a team of actuaries, developed innovative living benefits life products, income term products and annuities with guaranteed income and living benefits
- Created start-up company as Director of Veris Settlement Partners, a broker in the growing life settlement market. Working with existing distribution contacts in developing expertise in underwriting, actuarial valuation, and relationships of life settlement providers and funders
- Developed term purchase and Irrevocable Beneficiary settlement models

2004-2005

### **Improved Funding Techniques, Inc., Lynbrook, NY** *Chief Operating Officer*

- Responsible for all internal processes and people in a very successful pension, consulting, and actuarial firm. Implemented new systems and processes to improve operational efficiencies and increase capacity.
- Expanded marketing nationally by opening regional offices in areas of geographic preference to further leverage a highly-skilled back office.
- Increased product offerings to include long-term care, group health and additional life products to complement a very successful life insurance, 401(k), and money management portfolio.

1990-2003

**Bankers Life Insurance Company of New York, Woodbury, NY**  
*President and Chief Executive Officer*

- Directed Bankers Life from a small company to a dynamic sales and servicing organization
  - Grew life sales from \$3 million to \$30 million of production, placing Bankers Life as one of the top providers of life insurance in New York
  - Increased policies under administration from 30,000 to 250,000 policies, through a combination of internal growth, acquisitions, and TPA arrangements, reducing unit costs by 70%
- Implemented administration systems, image technology, and enhanced workflows to support this additional capacity in a paperless, low-cost environment
- Designed creative products that met market appeal, fueling the sales growth while increasing product ROI's and profitability
- Developed strong field relationships and built a hybrid field force of Marketing Organizations, General Agents, and Financial Institutions
- Grew profitability from \$1 million to \$12 million, increasing ROI's to 12%, while retaining RBC ratios at 300%

2001-2003

**AmerUs Life Group, Des Moines, IA**  
*Chief Financial Officer*

- Named CFO of AmerUs Life Group in conjunction with responsibilities as President and CEO of Bankers Life
- Responsible for all financial aspects of life group, managing and developing staff of 30 associates including actuaries, accountants, and analysts
- Improved financial reporting processes with the implementation of a new general ledger system, analysts tools, and modeling capabilities
- Migrated from individual company to segment reporting providing by-line/minor line P&L's

1985-1990

**ICH Corporation, Englewood, CO**  
*Senior VP Planning & Finance*

- Developed and directed planning, budgeting, and reporting systems for ICH Corporation, an insurance holding company with over 20 insurance companies

1978-1985

**Philadelphia Life Insurance Company, Philadelphia, PA**  
*VP Planning & Finance*

- Directed financial and planning functions for Philadelphia Life Insurance Company

## Education

1979-1981

**Temple University, Philadelphia, PA**  
MBA-Finance

1973-1977

**Gettysburg College, Gettysburg, PA**  
Bachelor of Arts-Double Major in Math and Economics

## Professional Designations

Chartered Financial Consultant (ChFC)  
Certified in Long-Term Care (CLTC)  
Fellow of the Life Management Institute (FLMI)

# SUFFOLK ACADEMY OF LAW THE LIVING BENEFITS OF LIFE INSURANCE

MAY 22, 2019

**Henry Montag CFP**  
**TheTOLI Center East**

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Henry Montag 2019

## AGENDA

- Types of Life Insurance
- Different uses for Different Objectives
- Effect of Interest Rates & In-Attention
- Various Types of Living Benefits
- Various Uses of Living Benefits
- Current Insurance Trends to Maximize Value

There's nothing inherently right or wrong about whole life, universal life, variable life or term insurance. Each class of insurance has strengths and weaknesses and the client's appropriate. However, situation and goals should determine which is most each type of policy needs to be managed and market forces have effected all life insurance."

## Matching Policy with 1 of 2 Objectives

### **POLICIES FOR MAXIMUM DEATH BENEFIT**

- TERM
- UNIVERSAL

### **POLICIES FOR MAXIMUM ACCUMULATION / LIVING BENEFITS**

- WHOLE LIFE
- INDEXED UNIVERSAL LIFE
- VARIABLE UNIVERSAL LIFE

• <b>Whole Life -</b>	<b>Can be Guaranteed for Life</b>	
• Dividends		
• Blended Policies	Pay for Term	
• <b>Flexible Premium -</b>	<b>Not Guaranteed</b>	
• Universal Life		
• Variable		
• Indexed		
<b>Guaranteed Universal Only available since 2003</b>		
<b>Guaranteed to any age</b>		
• <b>Term</b>	<b>Max Guarantee to age 83</b>	
	Guaranteed to age 83	L
L	Less than 2% payout	

3 Types of Policy Design

**If Premium is Paid in Full & On Time**

**Death Benefit Guaranteed**

- **3% Growth of CV is Guaranteed**
- **Blended Policy Not Guaranteed**
- **Dividends Not Guaranteed**

**Not Good for Maximum Death Benefit**

**Good for Tax Deferred Accumulation**

Whole Life Insurance 25%



- Death Benefit – Not- Guaranteed
- Duration of Contract – Not- Guaranteed
- Premium - Not Guaranteed
- Cash Values - Not Guaranteed
- Values Based on Stock Market Performance
- Variable Life Must be Reviewed Annually
- GOOD FOR MAXIMIZING TAX DEFERRED GROWTH & DISTRIBUTIONS IN DEFERRED COMPENSATION PLANS

Variable Life Insurance 12%

#### COVERAGE PERIODS

- 1 -40 YEAR UP TO AGE 83 MAXIMUM
- D.B, PREMIUM & TIME PERIOD GUARANTEED
- 2% OF TERM EVER GETS COLLECTED

#### USES FOR TERM - Maximize Death Benefit

##### ASSOCIATION TERM COVERAGE

- FAMILY INCOME
- COLLEGE FUND
- MTGE OR LOANS
- BUSINESS BUY SELL

TERM INSURANCE 22%

- Policy performance based on Trustee's Action & Inaction
- Premium based on current interest rates Not Guaranteed
- Duration of Coverage Not Guaranteed NOT UNTIL 2003
- Policies must be reviewed and managed
- Significantly reduced interest rates over 25+ years affects coverage
- Death Benefit remains same Premium remains same BUT DURATION OF COVERAGE WILL VARY

Universal & Indexed Life 41%

"Market forces (interest rates) affect life insurance and drive insurance crediting rates in the same way that they affect other financial assets and transactions. We don't, however, manage life insurance to the same extent that we manage our other financial assets and transactions. It's this gap in traditional financial services we need to address to avoid catastrophic, sometimes irreparable loss of coverage or even devastating tax consequences."

- ✓ Consumers make decisions based on carrier projections
- ✓ There is a mindset that the numbers do not change
- ✓ Projections can be out of date very quickly
- ✓ Policy owners don't adjust

INTEREST RATES INCREASE

- DEATH BENEFIT STAYS SAME
- PREMIUMS STAYS SAME
- LENGTH OF COVERAGE CAN INCREASE
- PREMIUMS CAN BE DECREASED

INTEREST RATES DECREASE

- DEATH BENEFIT STAYS SAME
- PREMIUMS STAY SAME
- LENGTH OF COVERAGE DECREASES
- PREMIUMS SHOULD BE INCREASED

BUY & HOLD vs BUY & MANAGE

INTEREST RATES CHANGE RESULTS

**REDUCED INTEREST RATES, NEGLECT, INCORRECT ASSUMPTIONS HAVE CAUSED A GROWING NUMBER OF LIFE INSURANCE POLICIES TO LAPSE PREMATURELY**

THE MOST IMPORTANT OBJECTIVE OF A LIFE INS POLICY IS TO BE IN FORCE WHEN THE INSD DIES

MOST IMPORTANT LIVING BENEFIT

## TYPES OF LIVING BENEFITS

Convert a life policy to pay;

- LONG TERM CARE EXPENSES
- LONG TERM CARE PREMIUM

Use a Life Ins policy as an Asset Class to;

- SUPPLEMENT PERSONAL RETIREMENT BENEFITS
- KEY PERSON WITH DEFERRED COMP

Or you can;

- SELL POLICY AS A LIFE SETTLEMENT

## Long Term Care Ins Basics

Daily Benefit

- Duration
- Waiting period
- Inflation options
- How qualify to purchase/ Underwriting
- How Collect Benefits
- Industry overview & Future outlook
- Traditional /Stand Alone Plans
- Deductibility and Tax Credits as Incentive
- Linked/Hybrid/Combo Plans

## Traditional LTCI Fails as Ins Product

- Viewed as too expensive
  - Increasing premium trend feared
  - An uncomfortable topic to discuss
  - It wont happen to me
  - If I don't use it I'll lose it
  - Despite attractive State & Federal tax benefits
  - Easier today to consult with an Elder Law attny
- 
- Less than 9% market share after 15 years

## Pension Protection Act

**In an attempt to decrease increased reliance on Medicaid & increase individual LTCI coverage**

**The Insurance Industry & Federal & State Govt**

**Combines Long Term Care Ins & Life Ins**

Provides tax benefit to LTCI payout from life Ins policy

Avoid tax on gains in annuities

Tax Free transfer from Annuity if used to pay LTC

Ability to use SPIA to pay LTCI premiums

Creates significant leverage for LTCI payout

Take Away 'Use it or Lose it mentality

Two Different Approaches

**CHRONIC CARE vs Long Term Care Rider**

**As a result of the Pension Protection Act**

A person can now convert all or a part of their Life Insurance policy's cash value into a Hybrid Long term care policy that creates a highly leveraged LTC benefit on a tax free basis.

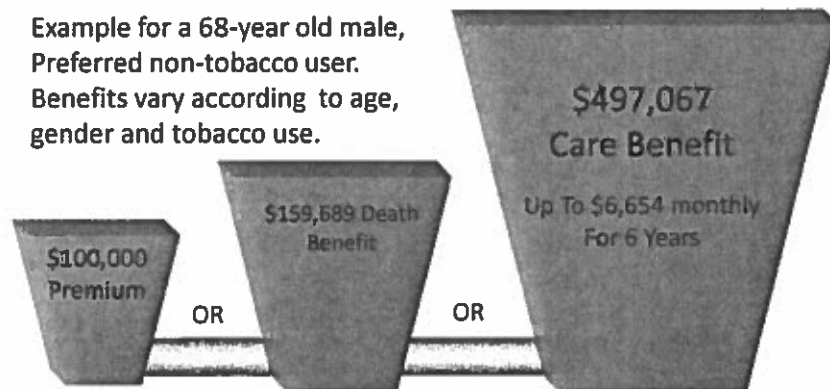
- **More benefits i.e Long Term Care Coverage**

Poor Health May prevent this option

Explore Other Insurance Options

### How Hybrid Coverage Can Work

Example for a 68-year old male,  
Preferred non-tobacco user.  
Benefits vary according to age,  
gender and tobacco use.



## Supplemental Executive Retirement Plans (SERP's)

### For Personal Strategies

- Tax Deferred Accumulation Benefits
- Benefits used to supplement retirement payouts
- Through use of Loans and Surrenders
- Distributions strategies can be made Tax Free
- No reporting or administrative requirements
- Ability to discriminate among employees

**M45 deposits \$25,000 to age 65**

Initial DB	Income at Age 67-82	Death Benefit at age 82
• \$1.67M	\$77,596	\$257,838

## Deferred Compensation Plans

### Corporate Strategies

- Tax Deferred Accumulation Benefits
- Benefits used to supplement retirement payouts
- Through use of Loans and Surrenders
- Distributions strategies can be made Tax Free
- No administrative reporting
- Ability to discriminate
- Primarily used to retain & reward key employees
- Equalize inequitable S/S payouts for hi wage ee's
- Split Dollar Sharing premium payment with ee's

## ANNUITIZE A CURRENT LIFE POLICY

- Settlement Options
- Life period certain
- Survivor joint life
- Life only
- Shop around

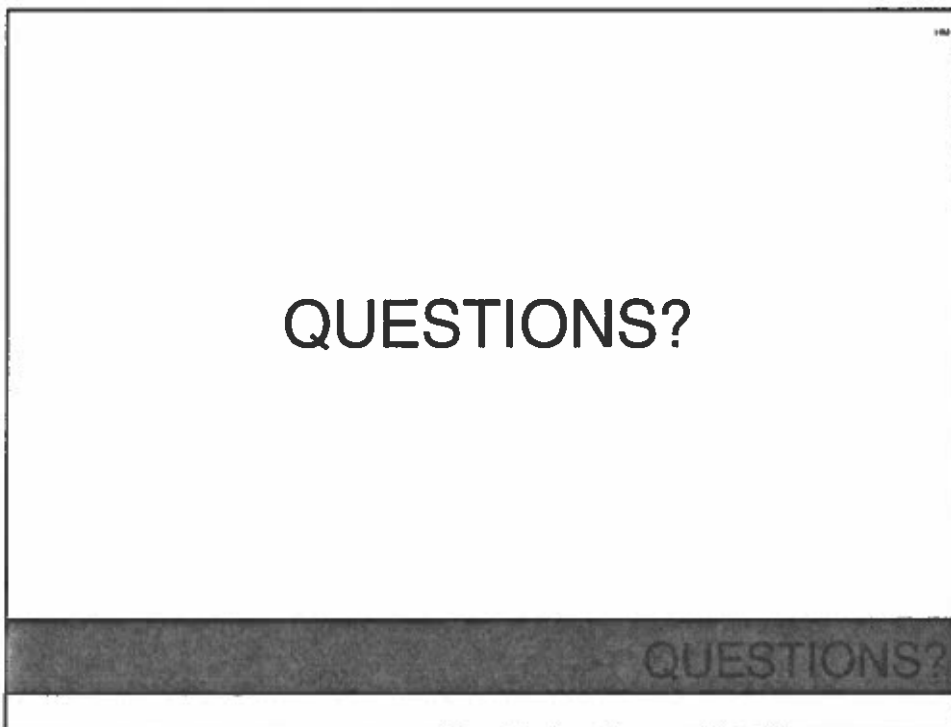
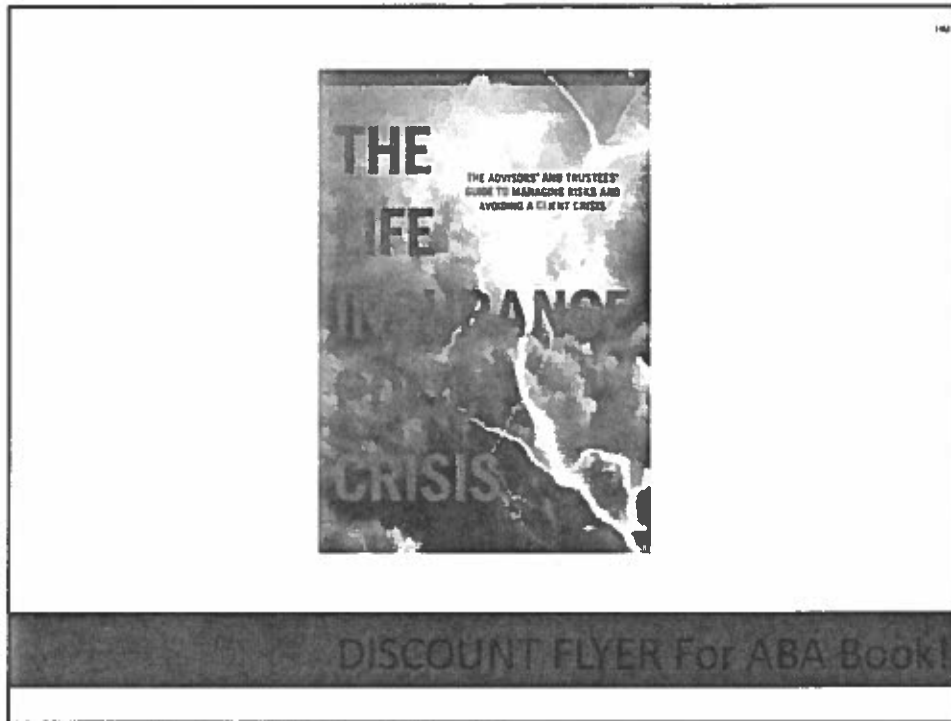
- Current Reduced Estate Tax Requires Less Ins
- Many Insd's/Trustees Reducing Life Ins Portfolio
- Should Life Insurance Portfolio be Reduced???

### Options to Reduce Life Insurance

- **Convert to LTCL or Annuity**
- Surrender Cash Value
- Discontinue Premium
- **Life Settlement Sell Policy**

If Life Insurance No Longer Required??





**Situation**

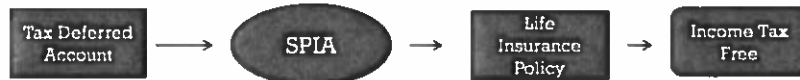
- One bets on long life, Other bets on early death
- Male 76 has \$600,000 in Taxable CD earning 3.0% gross  
RESULTING IN 2.0% = \$12,000 Net Annual Income

**Solution**

- Purchase \$285,000 SPIA paying \$26,300 Net Annual Income
- Purchase \$315,000 SPIA paying \$29,000 Net & use to purchase \$600,000 life insurance.

**Result**

- Net Lifetime Income(2 times) Guaranteed against risk



Leave Your Heirs With More Money Insurance Arbitrage #4

**THANK YOU!**

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THANK YOU

# SUFFOLK ACADEMY OF LAW

THE LIVING BENEFITS  
OF LIFE INSURANCE

May 22, 2019

Part III: From an Estate Planning Perspective-Gary B. Schreiner, Esq.

THE SCHREINER  
LAW GROUP, P.C.  WILLPLAN.COM

## FINANCIAL SECURITY FOR YOUR FAMILY LEVERAGED BY INCOME TAX BENEFITS

- To Review: Life Insurance is a tax advantaged investment alternative

### Income Tax

- Tax free compounding of invested premiums
- Income tax free access to cash values via policy loans
- Income tax free death benefit

## FINANCIAL SECURITY FOR YOUR FAMILY LEVERAGED BY TRANSFER TAX BENEFITS

### Estate and Gift Tax

- ▶ Using Irrevocable Trusts for the ownership of Life Insurance allows:
  - ▶ Gift tax free payment of premiums via withdrawal notices
  - ▶ Leverage via the taxable gift of the cash value of pre-existing life insurance to a trust
  - ▶ Estate tax free death benefit, protected from the Generation Skipping Transfer Tax
    - ▶ Liquidity for the payment of estate taxes (if any) at your death with tax free funds
    - ▶ Tax free compounding is the most powerful force in the universe, according to Einstein (See the following slide)
  - ▶ Continuation of the death benefit/proceeds in the family for generations with Dynasty Trusts
    - ▶ Protection from creditors/divorcing spouses

## DYNASTY TRUST WEALTH ACCUMULATION THE POWER OF COMPOUNDING

	Property in Dynasty Trust	Property Held Outside of Trust
<b>Beginning Value</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>
After 30 years, value grows to...	\$5,743,491	\$5,743,491
<i>Less: 50% Transfer Tax</i>	\$0	\$2,871,746
After-Tax Value after 30 Years	\$5,743,491	\$2,871,746
After next 30 years, value grows to...	\$32,987,689	\$16,493,847
<i>Less: 50% Transfer Tax</i>	\$0	\$8,246,924
After-Tax Value after 60 Years	\$32,987,689	\$8,246,847
After 90 years, value grows to...	\$189,464,500	\$47,366,135
<i>Less: 50% Transfer Tax</i>	\$0	\$23,683,068
After-Tax Value after 90 Years	\$189,464,500	\$23,683,068
After 120 years, value grows to...	\$1,088,187,683	\$136,023,492
<i>Less: 50% Transfer Tax</i>	\$0	\$68,011,746
After-Tax Value after 120 Years	\$1,088,187,683	\$68,011,746

## LIVING BENEFITS FOR YOU EVEN WITH TRUST PROTECTION

- The Irrevocable Trust assets (including policy cash values) are available as needed for the beneficiaries during your life-typically for your spouse and descendants
- As the creator of the Irrevocable Trust, and as the insured, you are not a permissible beneficiary while you are alive
- BUT you CAN access the policy or cash values of trust owned life insurance on your life without adverse tax consequences:
  - Via loans from the Trust in the discretion of the trustee or a "loan director" appointed by you or
  - Via a "swap" or "substitution" power which you include in the trust allowing you to remove trust property by replacing it with other assets of equivalent value

## LIVING BENEFITS FOR YOU AS OWNER OF YOUR POLICY

- "Long Term Care" Riders on life insurance policies are a wonderful benefit, coming in many different varieties and flavors
  - They can be very cost effective
  - Underwriting is not as stringent as required under separate "LTC" insurance policies
  - You can access some considerable portion of your death benefit during your life, if you qualify based on your physical and mental condition, and need for care
    - Of course, accessing your own death benefit will reduce the amount payable to your beneficiaries at death
  - They are best owned individually, and not in Trust (with the death benefit paid to trusts for your spouse or children)
- We must not forget two other major benefits of individual policy ownership:
  - The ability to change the beneficiary (accomplished through others, in a trust format)
  - The protection of the cash value from creditors under the NY Insurance Law (this applies to trust owned policies, as well)

## OTHER LIVING BENEFITS

- Most of the creative and very effective techniques which have been invented which allow the affordable funding of life insurance (from which you may benefit) are beyond the scope of this brief presentation, and have been alluded to by our other speakers, but include:
  - “Split Dollar” funding where the cost is shared by an employer, a business, or a third party with the insurance cash value or death benefit acting as security
  - “Non qualified deferred compensation” arrangements, where the life insurance supports wealth accumulation for key employees/owners
  - Funding for the buy out of a retiring or deceased partner’s ownership of a business
  - Deductible premium payments for life insurance owned by qualified retirement plans
  - Funding obligations in a divorce (certainly the settlement of a divorce qualifies as a living benefit)

## ESTATE TAX PLANNING IN THE ENVIRONMENT APPROACHING THE 2020 OR 2024 ELECTIONS

- With the liberalization of estate tax rates and exemptions in recent years, Trust ownership of life insurance is only necessary for the uber wealthy top one percenters at this moment in time
- Families who have insurance in Trust, (created previously in a higher tax environment) can modify or terminate them-but in our experience, most have continued the insurance, and the trust ownership of the policies
- These high thresholds of taxation, and lower rates, are historically unusual, and likely to be undone by future legislation
  - An Example: Senator Sanders proposed regime: exemptions from \$11.4 million to \$3.5 million; top rates from 40% to 77%
  - See the attached Memo/Handout detailing the drastic nature of this proposed law. (there are others announced and in the works) the implication of which must be considered in planning for most of our new or returning clients.

Thanks for Listening  
Your questions are welcomed today, or at any time.

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**Stephen J. Shorrock**

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*Managing Director*  
**Veris Settlement Partners**  
**Suffolk Academy of Law**  
**May 22, 2019**



**Secondary Market Consultants**

**“Bringing Liquidity to Life”**

## **Stephen Shorrock**

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- **Bio/Background**
  - **Life insurance since 1978**
  - **Former Life Insurance CEO**
  - **Current Companies**
    - **LifeVentures – design life products/concepts**
      - **Focus on IUL designs and living benefit riders**
    - **Planning4Longevity – 200 life agents**
    - **VERIS Settlement Partners**
      - **Life Settlement Broker/Consultants**
      - **Generated \$70+ million in excess of CSV**
  - **ChFC, CLTC, FLMI, Actuary**



## Life Settlement – Market Opportunity

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\* 90% of seniors who let a life insurance policy lapse would have considered a life settlement had they been aware of the possibility

Source: Insurance Studies Institute

\* 88% of all Universal Life policies do not pay a death benefit

Source: Milliman and Robertson

\* Life companies will ultimately accept life settlements, as new life sales will increase with this additional exit strategy

Source: Steve Shorrock

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## Life settlements are here to stay...

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- Offer a viable alternative for policies other than lapse/surrender
  - Providing a market value for policies that ...
    - Are unaffordable or poorly performing
    - Are unneeded or unwanted
    - Sale, retirement, bankruptcy of business
    - Can help replenish/reposition retirement assets
    - Proceeds are needed for long-term care/medical expenses
    - Changes in estate value/estate tax regulation

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### **Life Settlement Timeline – From Wild West To Highly Regulated**

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- 1911- Grisby v. Russell, US Supreme Court Ruled
- 1980's – AID's Epidemic, Secondary Market for Viaticals created
- 1990's (late) – Secondary Market expanded for consumers 65+
- 2000 – NCOIL creates Life Settlement Model Act
- 2005 – Life Settlements grow to \$5 billion in-force, 25 states regulated
- 2007 – 35 states regulated, added more consumer protection
- 2010 – Due to STOLI and Global Recession, Market Declines for 3 straight years, investors skittish
- 2011 – Industry matures, capital back in market, NCOIL revises ACT
- 2012 – Life companies must notify policyholders as to options of lapse/surrender in certain states
- 2013 to 2015 – Life settlements show major signs of growth and acceptance, estimated to be \$3 billion annually in policy sales
- Current – Many buyers providing competition for quality policies

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### **Life Settlements**

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- Sale of a life insurance policy to a 3<sup>rd</sup> party
- Sold for more than CSV and less than DB
- Over 96% of population in regulated states
- Highly regulated transaction
- Participants in life settlement transactions:
  - Life Agent/CPA/Financial Advisor
  - Life Settlement Broker
  - Life Settlement Provider
  - Buyer – pension fund, investment group,...

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## The Current Marketplace

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- Non-correlated asset class
  - Changes in interest rates, equity and bond performance
  - Highly rated industry/asset class
  - Mortality experience—Key Driver
    - Difference in mortality curve at issue vs at life settlement
- More investment \$'s than policies to be sold
  - Competition drives up life settlement value
- Attractive Asset Class for investors
- Tax Treatment Clarified



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## The Current Marketplace

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- Demographics
  - 10,000 turning age 65 each year
  - 1 out of 4 65 year old's will live past age 90
  - 1 out of 10 65 year old's will live past age 95
- Retirement
  - Most retirees woefully unprepared for retirement
  - Many will be spending 20+ years in retirement
- Medical Costs
  - Most individuals unprepared for LTC costs
  - Major concern is outliving retirement assets



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## The Current Marketplace

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- **ROI Buyer expectations**
  - Has decreased over the last few years
  - Competition and demand vs supply of policies
    - 10-14% today
    - Up to 20% 3 years ago
    - Lower Expected ROI higher the settlement value
- **More seniors aware of this consumer option**
  - Over \$10 trillion of US life insurance in-force
  - \$400-500 billion on insureds over 65 and growing
- **Perfect Time for Life Settlements**



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## The Current Marketplace

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- **The market is robust with competitive files receiving multiple offers. Buy-box is:**
  - Generally, insured's need to be 75+ with at least some health issues
  - Life Expectancies up to 12 years
  - Best results with UL and convertible Term. Limited markets for VUL, WL and Survivorship policies (both insured's living)
  - Broader market is for Face Amounts of \$500k and up. Limited markets for policies under \$100K.
  - Ideally level premiums to age 100 will be <5% of face amount
  - Can be an excellent exit strategy for the policy owner



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**Life Settlement**  
**Pre-Qualification Worksheet**

Propriet Name: \_\_\_\_\_

Name: \_\_\_\_\_

1000 Piedmont Corporate Center, PM  
 Building 107-2000  
 2911 Main St., Charleston, SC 29405  
 Phone: 803.523.1177  
 Fax: 803.523.2011  
 www.veris.com

Please read each section and call the partner a local agent. Complete the same with the table below for a life settlement prospect. (If more than one policy is being submitted, please complete the worksheet for all policies.)

Policy face amount must be at least \$100,000

21. Carrier is rated A+ or better

22. Issued in US, other

(Check age and sex)

23. Male age 70 or less / female age 77 or less

24. Male age 71-74 / female age 75-77

25. Male age 25-70 / female age 26-81

26. Male age 70-81 / female age 82-89

27. Male age 81+ / female age 87+

Medical conditions:

28. None

29. None

30. None

31. None

32. None

33. None

34. None

35. None

36. None

37. None

38. None

39. None

40. None

41. None

42. None

43. None

44. None

45. None

46. None

47. None

48. None

49. None

50. None

51. None

52. None

53. None

54. None

55. None

56. None

57. None

# Regulatory

- Life settlements regulated in most states
- 96% of US population resides in regulated states
- Highly regulated transaction
  - All compensation disclosed
  - Transaction disclosed to insured/owner/trustees/beneficiaries
  - Own doctor must attest to sellers competence
- Increasing number of states have enacted legislation that insurance companies must let the policyholder know that a life settlement is an option vs. lapse/surrender



## Tax

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- **Tax Cuts and Jobs Act of 2017 (TCJA)**
  - Clarified life settlement tax treatment
  - Retroactive back to all policies sold since 2009
    - Prior guidance was premiums less cost of insurance was basis
  - Basis is now premiums paid, same as if a policy surrendered
  - Transaction is tax-free up to basis (premiums paid)
  - Long-term capital gain on proceeds above basis
  - Survivorship Policies:
    - Federal estate tax exemption increased to \$11.2 million per individual and \$22.4 million with portability for a married couple



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## Recent Transactions: Paid-Up Insurance

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- **Paid-Up Insurance**
  - 68-year-old man
  - \$5 million Universal Life policy
  - Policy in-force for six years
  - \$215,000 Cash Surrender Value
  - Gross offer of \$2.3 million paid-up insurance
    - Irrevocable beneficiary (IB)
    - No future premiums



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## Recent Transactions: Cash Settlement

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- Cash Settlement
  - 85-year-old woman
  - \$1.8 million Universal Life policy
  - Policy in-force for eight years
  - \$300,000 Cash Surrender Value
  - Gross offer of \$600,000



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## Recent Transactions: Small Face Settlement

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- Small Face Settlement
  - 74-year-old man
  - \$200,000 Universal Life policy
  - Policy in-force for 20 years
  - No Cash Surrender Value
  - Gross offer of \$71,827
  - Small case application
    - Medical questions
    - Phone Interview L/E



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## Positive versus Negative Themes

### Positive

- Market value for unwanted insurance
- Relief from making premium payments
- Retirement funding
- Liquid asset
- Sound investment for investors
- Policyholder awareness
- Ability to purchase new insurance (LTC, annuities)

### Negative

- Unregulated states( 5 remaining)
- Loss of insurance capacity
- Insurance company profitability/acceptance
- Broker Dealer approval



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## 2018 Veris Results

- 33 cases sold, totaling 46 policies
- \$33.5 million of Death benefit sold
- Gross offer of \$8.5 million, or \$7.1 million above CSV
- **A wonderful consumer option that must be included in the financial plan**



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**Questions?**

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