SUITABILITY OF LIFE SETTLEMENTS

Traditionally, estate planning advisors counsel their high net worth clients to obtain life insurance policies with large death benefits. The strategy is simple: create a vehicle for heirs to receive tax-free income at the time of an insured's passing so sufficient funds are available to pay large estate tax bills when assets are inherited.

This common estate planning strategy requires re-examination with the passage of The Tax Cuts and Jobs Act, signed into law by President Trump in 2017. The new law contains important changes to the treatment of federal estate tax. The most notable change is that the new tax law doubled the estate tax exemption — it is now $11.2 million per individual and $22.4 million, with portability, for a married couple. Therefore, only 1,800 estates each year will be subject to federal estate taxes - the vast majority of Americans who followed traditional advice and purchased a life insurance policy to help pay such taxes are no longer affected.

In addition to such a dramatic change in the estate tax law, there are other industry developments causing many estate planners to question the wisdom of maintaining life insurance policies owned by their high net worth clients:

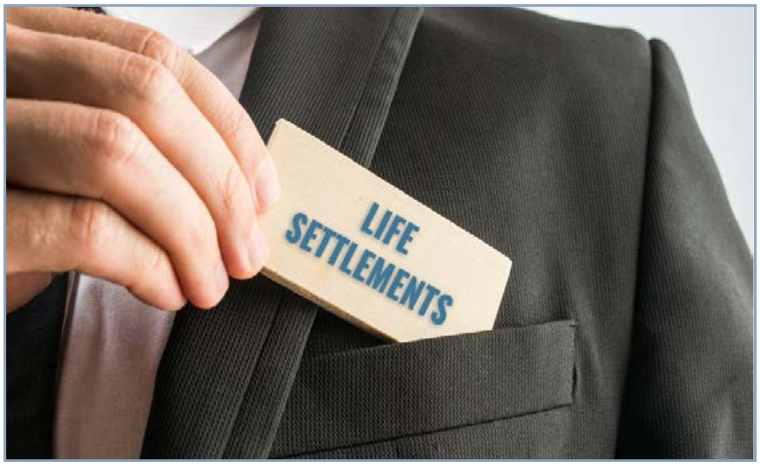
- ***Premium Creep.*** High net worth seniors are often living longer than originally expected and their increasing age can drive premiums to excessive levels. Welcome Funds has seen cases where annual premiums can exceed 10% - 15% of the face value of the policy as the insured approaches 90 years old.
- ***Unprepared Estates.*** Many advisors and family members did not anticipate the advanced age of the insured when large-face policies were purchased years ago. Welcome Funds often evaluates policies where the estate was prepared to fund the premiums for only approximately 20 years, not beyond two decades.
- ***Insufficient Interest.*** Many policies were funded with a large, single premium payment projected to keep the policy in-force to maturity or age 100. Unfortunately, the interest rates that some carriers used in these projections were lower than anticipated, causing unexpected premium invoices sent to policy owners - the cash value in the policy simply became depleted faster than expected.
- ***Expiration Dates.*** One of the biggest unanticipated consequences resulting from longer life expectancies is that some policies actually expire at age 95 or 100 — if the insured lives beyond that age, only the cash value is paid out and the death benefit goes to zero.

The combination of the change in the estate tax exemption coupled with the above industry factors have led many estate planning advisors, accountants and trustees to wisely analyze their high net worth clients' situations – should they continue paying premiums on their life insurance policies or save such funds and invest it elsewhere?

A life settlement transaction is an alternative to the lapse or surrender of a life insurance policy that could yield a far superior financial outcome for the estate when a life insurance policy purchased years ago is no longer wanted or needed.

A life settlement often solves five problems, depending on facts and circumstances, for advisors of high net worth individuals:

1. Selling the policy eliminates the premium burden on the estate;
2. Eliminating such premium burden saves the estate from being forced to liquidate other assets to keep the policy in-force;
3. Generating immediate cash from the transaction provides a large cash infusion for estates in need of liquidity that would exceed the cash surrender value from the carrier;
4. Proceeds from the sale of the policy may be invested into a more appropriate asset for the estate — or provide the insured's heirs with capital they can deploy immediately for business investments, real estate or charitable giving; and
5. Eliminating payment of future premiums while simultaneously maintaining part of the death benefit for the estate in a hybrid life settlement option called a RDB or "Retained Death Benefit" transaction.



Not surprisingly, the life settlement market is experiencing a significant increase in large-face value life insurance policies that high net worth individuals are seeking to sell. Trusted advisors need to review their clients' finances and estate plans to determine whether any life insurance policy is still serving its intended purpose.

A life settlement should be explored any time one of the following circumstances is considered:

- Lapsing or surrendering the policy - a life settlement may yield much more cash to the policy owner.
- A "paid-up" policy option offered by the carrier - a retained death benefit life settlement, as described above, is often more advantageous to the estate.
- A reduction in face value to lower the premiums - a life settlement may be more valuable to the policy beneficiaries in light of the new tax law.

Conclusion

In summary, after considering individual financial needs, tax scenarios and changing market factors, it may not make sense to keep paying premiums for a life insurance policy that no longer meets a client's needs. Under such circumstances, it is important to investigate the life settlement option as an alternative to lapsing or surrendering a policy back to the insurance carrier.

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