Life Settlements: How Family Offices Are Rethinking Life Insurance Reviews

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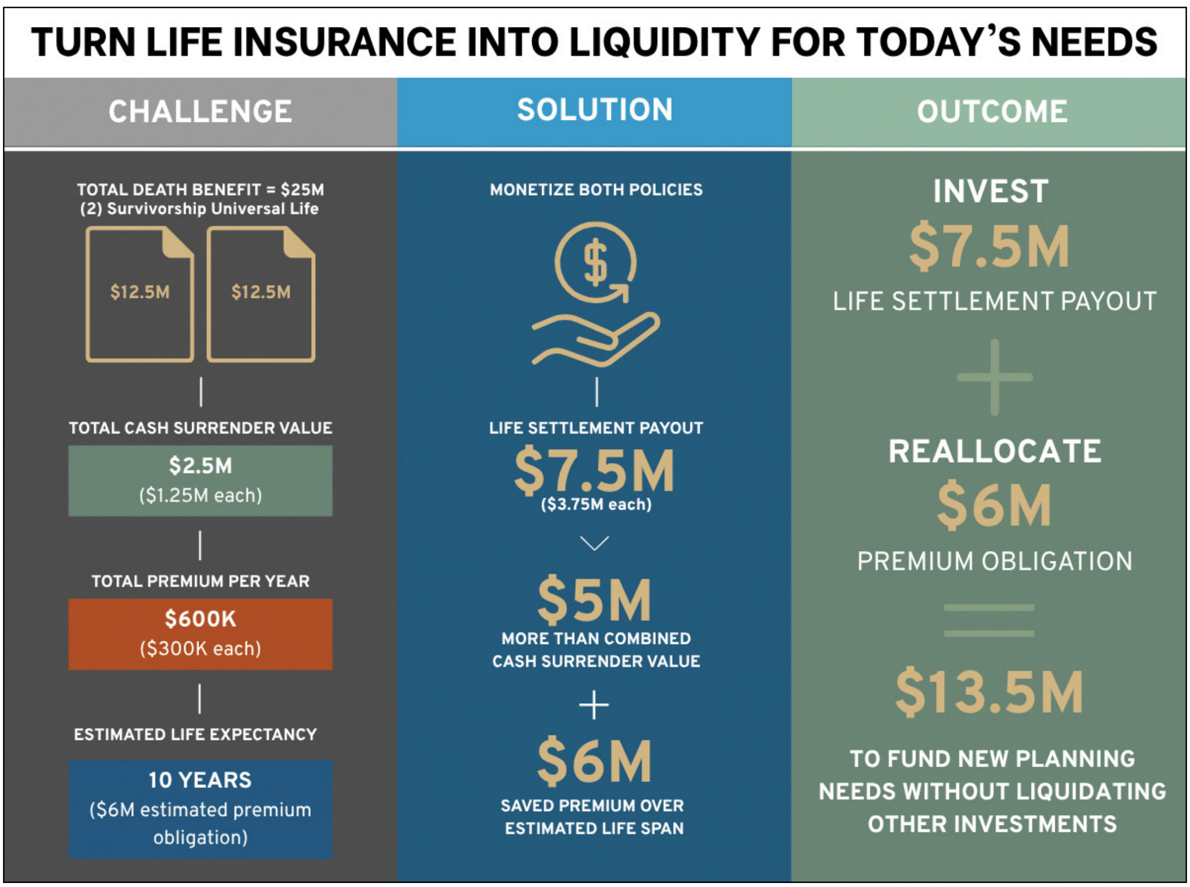
What would you do if you could free up $600,000 a year and unlock $5 million in hidden value without selling a single traditional asset? That was the question facing a family office managing the estate of an 85-year-old patriarch who had spent a lifetime building a family legacy. He and his late wife purchased life insurance for all the right reasons: estate planning, tax mitigation, and generational wealth transfer. However, they found that their other investments were significantly outperforming expectations, which meant the ongoing premium outlay for the life insurance no longer made strategic sense. By leveraging the life settlement market, the family sold two $12.5 million Survivorship Universal Life policies for $7.5 million—$5 million more than the combined cash surrender value of $2.5 million. Instead of continuing to make premium payments, which could total $6M over the next ten years, they were able to reallocate those premium dollars toward more efficient planning structures, adapting to the family's evolving needs.

This is not an unusual outcome in today's market. Affluent clients are increasingly recognizing life insurance not just as a protection tool, but as an assignable asset. As a result, there has been an uptick in clients who want to simplify their planning as their protection needs change, choosing to monetize policies to fund their retirement, business,



MIDYEAR OUTLOOK

charitable, or estate planning. These funds can also be used to pay for new coverage on the next generation without pulling from other investments.

A life settlement is the sale of an existing life insurance policy for more than the cash surrender value and less than the death benefit. The real value of this solution lies in *how* the policy is sold and whether the client is receiving the highest Fair Market Value (FMV). According to IRS guidelines, FMV is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts. Life insurance is an assignable asset that can have a fair market value far exceeding what the carrier will pay in surrender.

The Planning Blind Spot – Life Insurance is a Buy and *Manage* Asset

For those wearing a fiduciary hat, failing to evaluate the fair market value of life insurance assets may lead to missed opportunities or even liability. Affluent families often hold a portfolio of large-face life insurance policies that they purchased for various reasons and at different stages of their lives, either being managed by different sources or not at all. Many policies are paid for but forgotten, especially among multigenerational families. Advisors and families often overlook life insurance as part of periodic planning discussions, unlike hard assets like real estate, and tend to focus on more volatile assets and address what may be deemed more immediate needs.

The sale of a family business is an optimal time to review key-person policies that could qualify for sale (including convertible term products), recalibrate liquidity needs, and reevaluate estate tax exposure. The premium dollars allocated to policies that are no longer essential could be repurposed for new solutions such as buying out a senior partner, funding a buy-sell agreement or retirement plans. The death of a patriarch or matriarch and changing protection needs post-wealth transfer are other key reasons to engage an independent life insurance valuation expert (that's not tied to new coverage) to help document the fair market value of the life insurance portfolio and support informed decision-making.

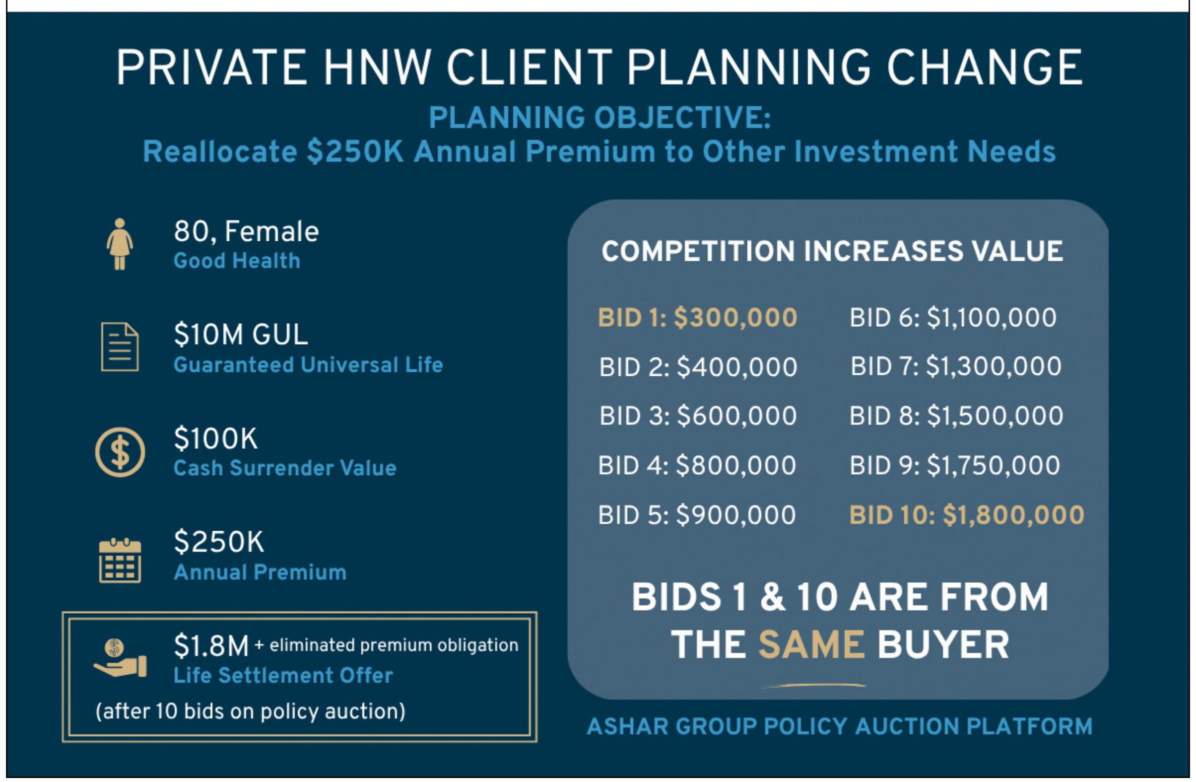
Ask your client this key question: ***"Would you buy this policy today?"***

For family offices, trustees, and wealth managers, valuing life insurance assets, especially after significant events, ensures that due diligence is conducted and can reveal opportunities to preserve or grow wealth more effectively. Once a policy is surrendered or lapsed, you can't go back and sell it. You cannot put Humpty Dumpty back together again.

Reposition an Illiquid Asset – Create Liquidity Without Compromise

Large insurance portfolios equate to significant premium obligations for families and affluent clients. Through periodic and proactive valuation, family office executives can identify when policies are no longer necessary or are underperforming, and pinpoint policies that qualify for a life settlement, potentially generating six- to seven-figure returns without disturbing illiquid or sentimental assets, such as real estate or family-owned businesses.

CASE EXAMPLE: ILLUSTRATION OF A POLICY AUCTION



Two Types of Sellers

- **Illiquid Clients (Reallocation is Key):** Those with a desire to eliminate premium obligations due to an immediate liquidity need that outweighs the purpose of keeping the policy in force. This can be particularly impactful for families who are highly invested in real estate or business ventures that require short-term liquidity.
- **Strategic Clients (All About Efficiency):** These clients frequently review performance metrics as part of their asset allocation strategy and adhere to a mindset of minimizing exposure and maximizing returns. This can be impactful for families with increased longevity, as they face the uncomfortable realization that their family is hedging against the life expectancy of their matriarch or patriarch.

Capitalize on Market Momentum

Several factors are driving increased demand for the life settlement solution among affluent clients. The first is a greater awareness that the option exists, primarily from direct buyers who spend millions of dollars on national advertising. It's essential to note the difference between sell-side and buy-side representation. Direct buyers represent the interests of investors, and policy owners should seek to work with an independent resource that has a fiduciary duty to represent their best interests. Sell-side representation and policy auction (see chart to left) are critical components to generating the highest fair market value for clients.

Changes in tax policy and a growing need for early wealth transfer strategies are other key factors driving increased interest in the life settlement market. When investor demand increases and interest rates continue to rise, life settlements become more attractive to clients who want to act while conditions are favorable, recognizing the opportunity to capture high fair market value.

Overall, the life settlement market can consistently yield offers between 10% and 50% of the policy's face amount, depending on the insured's age and health. Currently, there is aggressive capital competing for policies, resulting in stronger offers in the last quarter than all of last year. For impaired insureds with policies that have low cash value, guaranteed products, and efficient universal life products, a policy auction negotiation can generate between 40% and 70% of the face amount in today's market.*

If a Buyer Wants the Policy, Shouldn't My Client Keep It?

Unlike most consumer families, institutional investors are willing to dedicate vast amounts of capital to life insurance as an asset class and benefit from the law of large numbers. Buyer portfolios consist of thousands of policies with diversification of insurance carriers, products, policy sizes, and insured health conditions.

Preserving Dignity and Wealth

A first-generation patriarch passed away with a $100 million portfolio, and the matriarch's deteriorating health requires full-time skilled care. Due to limited liquidity and prior mismanagement, funding the $35,000 per month level of care the family desired for the matriarch caused a financial burden, despite their overall net worth. Through a comprehensive valuation of two policies originally purchased for estate tax purposes, the family chose to sell one of the policies for 50% of its face amount, allowing them to fund caregiving while retaining the remaining policy for future planning objectives.

Business Empire to Legacy

Through a series of successful acquisitions, an entrepreneur amassed a billion-dollar empire, requiring multiple key person life insurance policies. Upon turning 80, he sought to simplify by systematically dissolving and selling the companies. The family office executives encouraged valuing the related policies before cancelling and discovered several had significant life settlement value. As a result, the client chose to sell those with value and donate a significant portion of the proceeds to a cherished cause, creating a lasting legacy.

Safeguard the Future

Life insurance isn't just a product or protection tool. It's an asset, like other property, subject to valuation to help families make more informed decisions about retention, replacement, or sale. Family offices that appraise and optimize life insurance like any other asset class can create higher-value, more flexible planning opportunities for the families they serve. By reallocating capital to fund strategies like enhanced investment portfolios, strengthened trust and estate structures, philanthropic legacies, and liquidity preservation, today's family offices can have a lasting impact for generations to come.

Tell your clients who are 70 or older: "We've added a fair market value and longevity component to reviewing life insurance to assess performance and determine if it could qualify for a buyout. Would you like me to explore this option for you? There's no cost and no medical exam required."

Learn more about integrating the life settlement solution into client planning here.

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Learn more at ashargroup.com, LinkedIn and Facebook.

Ashar Group is an independent resource specializing in life insurance valuation for planning purposes. They are a nationally licensed life settlement firm protecting the best interests of policy owners by creating a competitive policy auction to deliver the best value to the seller. Ashar Group does not sell life insurance, manage assets, or purchase policies.

*BASED ON ASHAR GROUP POLICY AUCTION DATA

LIFE SETTLEMENTS & LIFE INSURANCE VALUATION