

Beyond Protection: Are You Treating Life Insurance Like a Business Asset?

By Jamie L. Mendelsohn
ASHAR GROUP

Many business owners (and advisors) treat life insurance as just another expense. It's often viewed as a necessary protection tool, and once the box is checked, it's filed away and never revisited. Life insurance should be treated as an asset that can be valued like real estate, investments, or antiques.

In the world of succession planning, M&A, retirement, exit strategy, and continuity planning, life insurance isn't just a protection tool; it can be leverage that impacts business planning outcomes.

Business owners purchase policies to meet various needs—keyperson protection, buy-sell funding, cross-purchase agreements, split-dollar arrangements, or ESOP planning—and then they sit unnoticed on the balance sheet for years. Even when protection needs change, policies often remain unaudited. Meanwhile, they could have a fair market value that far exceeds the cash surrender value and could fund business and succession planning strategies in many different scenarios. (See chart above, right.)

Why This Matters Now

First: The *Connelly* decision was a wake-up call for many business owners and their advisors. Business-owned life insurance can no longer be an afterthought in succession planning or business valuation. The solution may not be to remove the policy from the business. It's important to know the policy's fair market value as a business asset before making planning recommendations.

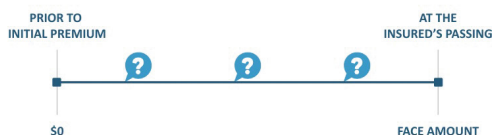
Ask your clients: When was the last time you had your life insurance policy appraised or valued?

Second: There is tremendous impact (and opportunity) tied to The Great Wealth Transfer. An estimated \$84 trillion to \$124 trillion is expected to be transferred from older generations between now and 2048. A significant portion of this will involve businesses and business-related assets. The group driving the majority of the wealth transfer holds roughly 80% of all private business equity in the U.S., with about 25-35% of their net worth tied to private businesses.

Third: An aging population (the first baby boomers turn 80 in 2026!) will trigger a surge of exits, retirements, and business transitions. Over 50% of privately held businesses in

The value of a policy is known at purchase and at the insured's passing, but there's a value at various points in between that may differ from the policy's accumulated cash or surrender value.

WHAT IS THE VALUE OF THE LIFE INSURANCE POLICY TODAY?



the U.S. are owned by individuals age 55 or older. **What happens to the life insurance policies tied to these businesses?**

As aging owners prepare for retirement, succession, or M&A, liquidity will be critical, and life insurance could be the key to supporting these transitions.

5 Real-Life Business Scenarios Funded Through a Life Settlement

Life insurance policies can be valued and sold like any other property, converting an illiquid asset into immediate cash. A life settlement is the sale of an existing life insurance policy for an amount greater than the policy's cash surrender value and less than the death benefit. The buyer (institutional investors like pension funds, reinsurers, and asset managers) assumes the premium obligations and receives the death benefit upon maturity. There is no risk to explore the life settlement option, and unlike new policy underwriting, no medical exam is required.

Just like real estate sales, competition drives value. A life settlement transaction facilitated by an independent sell-side broker typically produces 5 times the cash surrender value, on average. This can generate the liquidity needed to fund retirements, buyouts, partner exits, business continuity, and more – all from an asset that is no longer needed.

When a policy is no longer needed, wanted, or affordable, a life settlement can transform it from a liability to a funding solution.

1. Key-Person Policy Funds Retirement

A retiring business owner (age 72) planned to let his \$5 million convertible term policy lapse. It had served its purpose, and he assumed the policy held no value. A valuation uncovered that it could be sold for \$750,000. Monetizing the policy through a life settlement funded his retirement and reduced pressure on the business during his transition.

The advisor facilitated converting the term policy to

permanent coverage prior to the sale. Life settlement buyers often require term policies to be converted as part of the purchase agreement.

2. Policy Value Unlocks Buyout Capital

The younger partners sought to buy out three owners in their 80s who had three Guaranteed Universal Life (GUL) policies totaling \$21 million in death benefit as part of a split-dollar arrangement. The business valuation team engaged an independent appraiser to value the life insurance assets rather than simply cancelling the policies. The valuation revealed a fair market value of \$6.9 million. The life settlement funded the buyout and eliminated the premium obligation for both parties.

Life insurance can be a bridge between the retiring generation and their successors. Advisors who navigate life insurance valuation and life settlement solutions become a natural connection to the next generation.

3. Cross-Purchase Agreement Rescued

An unfortunate health diagnosis of early-onset Alzheimer's for a beloved 60-year-old co-owner forced a review of the cross-purchase agreement that required the remaining partners to buy out his share, but they lacked the liquidity necessary to fulfill the obligation.

The family agreed to have his \$10 million Universal Life (UL) policy valued. Monetizing the policy generated \$3 million, which aided the buyout and provided his family with peace of mind during a difficult and vulnerable time.

4. Business Continuity During Crisis

A 42-year-old entrepreneur ran three addiction treatment centers for young women. Upon receiving an aggressive cancer diagnosis, she thought the business could not run without her. A life settlement provided capital that allowed her to hire leadership and maintain operations while she underwent treatment. It wasn't just a transaction. The life settlement saved her life's work, eased the burden of immense healthcare costs, and allowed her to spend valuable quality time with her teenage daughter.

5. Valuation Prevents an 8-Figure Loss

An 89-year-old patriarch and 83-year-old matriarch had a \$75M policy owned by the family foundation. They planned to cancel the coverage and free up a \$2.1 million annual premium obligation to fund charitable and other personal planning needs.

Thankfully, the family office team inquired about having the policies valued, similar to appraising the family's

businesses, real estate, and other assets before making significant planning decisions. The valuation uncovered a fair market value of \$20 million, which funded other contracts and prevented an 8-figure loss.

Life settlement proceeds can be used for anything, including becoming investable assets. Some clients also choose to reallocate premiums toward investments.

Market Stat: GUL, UL, and Convertible Term are the most sought-after policy types by life settlement buyers.

3-Step Guide to Life Insurance Valuation in Business Planning

Helping clients uncover value they didn't know existed and preventing catastrophic loss from cancelling potentially valuable life insurance assets is a fast track to building trust. The life settlement solution eliminates unnecessary premium obligations and unlocks liquidity to fund retirement, succession, or sale.

Exploring the value of life insurance assets and documenting outcomes (even when the inquiry doesn't result in monetizing the policy) mitigates risk and protects client relationships by ensuring they aren't learning about solutions from someone else. Advisors can also differentiate in a crowded marketplace and build relationships with other professionals within the client's advisory team.

Life insurance policies should be treated as business assets that need fair market value analysis. A life settlement could be the funding vehicle for business planning needs today and for years to come.

Significant losses can occur when policies are ignored. Big wins can come when they're valued.

Download this [3-step guide](#) to learn:

1. Essential Questions to Ask Your Business Owner Clients
2. How to Create a Policy Inventory
3. When to Request a Fair Market Value ■

Jamie L. Mendelsohn is Executive Vice President of Ashar Group.

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