THE BEST KEPT MONEY SECRET IN YOUR INSURANCE POLICY

What Life Insurance Companies Won't Tell You
(But Every Attorney, CPA, Nonprofit, Trustee, Advisor, and Client Should Know)

DAVID KOTTLER
with Geoffrey Gottesman

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WHAT PEOPLE ARE SAYING ABOUT THE LIFE INSURANCE DOCTOR

"All agents, please read this important book for your client's benefit and yours. We have closed many settlement cases with Geoff and David, getting top dollar for our clients. The process has opened up many new business opportunities for us. Highly recommend them and their book!"

— **Jeff Wasserman,** Managing partner
life insurance, Oswald Company

"I am an estate planning attorney who has redirected more than $230 million away from estate taxes to families and charities over the past 25 years and have worked with some of the most successful insurance professionals in the country. I have witnessed just how David Kottler excels at his craft. His expertise and knowledge in measuring the heartbeat of a life policy-and better yet-cures for a policy that, by all accounts, is in poor health, caused me to call him "The Life Insurance Doctor." He has helped rescue several policies which were about to crash and trigger huge income taxes for my clients."

—**Rodney Piercey,** Legacy Strategist/Trust Attorney
Barrington, IL.

"After years of experience as an attorney, stock investor, and philanthropist, David has helped me accomplish my goals through his innovative expertise in analyzing, buying, and selling my life insurance policies. He became my trusted advisor."

—**Alvin Gray,** Attorney/Philanthropist

“I met David over fifteen years ago and over that time he has shown himself to be extremely creative, effective, and adept at solving problems. This is why I am his client, and have referred dozens of my own clients and other CPA firms. Suggest you read the case studies.”

—**Gary Shamis,** Founder SS and G CPA Firm, Cleveland Oh

“Life insurance is an extremely important piece of the investment and estate planning puzzle for families of wealth. It is also one of the most difficult to understand. This book takes an important and intricate subject and makes it understandable while at the same time warns of the urgency of applying a solid and creative approach to life insurance planning on a timely basis. I have known David Kottler for decades as an entrepreneur and a financial professional. He brings an intelligent and practical approach to this subject for his clients.”

—**Gary A. Zwick,** Attorney, Walter | Haverfield LLP

“I had a client with a large term policy with conversion rights ready to expire. After failing to find a buyer with several brokers in the Chicago area, David said let me give it a try. He got such exceptional results client referred another friend who became a client. If you want someone who thinks outside the box and has a tremendous network, David is an excellent choice.”

—**Larry Horwich,** Managing partner of Horwich,
Coleman, Levin Chicago, IL

"Every advisor who works or aspires to work with wealthy families should read David Kottler's book. Life insurance is a very complex asset class but David helped me to better understand when and why life insurance would be an appropriate part of a client's estate plan. I am confident you will find reading it a worthwhile investment of your time."

—**Charles F. Adler,** Attorney at Law

This book is dedicated to…

I dedicate this book first, with deep gratitude, to God,
the provider of all of our blessings.

I would also like to dedicate this work to my loving wife and family,
and all of my mentors and coaches, both spiritual and professional.
I'm glad I trusted you with the process — it was a trust that each of
you rightly earned through your support and your faith in me.

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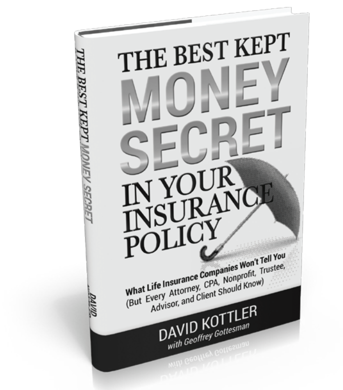

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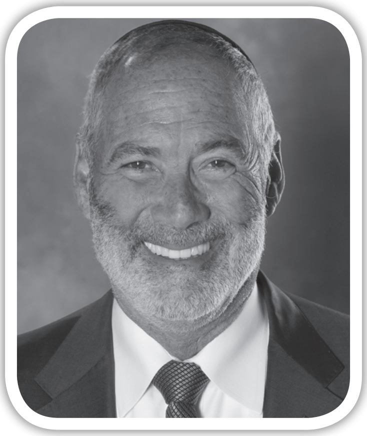

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SECRET 1

WHY THIS BOOK IS IMPORTANT TO YOU

"The truth will set you free, but first
it will make you miserable."

— James A. Garfield, 20th President of the United States

THERE IS A little-known secret that life insurance companies don't want you to hear.

Want to know what it is?

It's the fact that 90 percent of policies never last to maturity or the insured's death.

What is the impact of this revelation? This alarming secret is causing a tremendous waste of resources and the sidelining of far too many goals.

Clients buy their policies for specific and important reasons, such as being able to build a retirement fund, provide for their family after they are gone, achieve estate equalization, and pay taxes, among other things. The end result is they sink their hard-earned money into policies that will never, *EVER* accomplish these goals.

In fact, they would have been better off sticking their premiums under the mattress.

Why is this happening?

There are a variety of reasons. Some of these reasons include the way insurance salespeople are compensated, the staggeringly high amount of turnover in the profession, and the fact that more than 70 percent of policies in place today were written by agents who are no longer in the profession.

The bottom line is that clients could be costing themselves significant amounts of money by not reviewing their policy's performance on a regular basis. However, the odds are they bought their policy from someone who is no longer even in this industry, so where should they turn for answers?

The time has come to expect more, to ask some hard questions, and to expect straight answers!

Just Set and Forget?

If you drove a car a far distance without ever checking the engine or getting an oil change, would it be any big surprise when parts started breaking and smoke started coming out of the hood?

If you purchased a watch but never replaced the battery, would you be shocked one day when it stopped telling time?

If you got a water filtration system but never replaced the filter, would you be baffled when the water started tasting like chlorine again?

The point here is clear: there are few things in life that you can "set and forget."

Most of the "stuff" in our lives requires regular maintenance of some kind. And yet, every day, people are buying insurance policies and not realizing that there is no such thing as a "guarantee" in the world of insurance.

Many product and pricing changes are taking place as a result of how carriers are impacted by the sustained low interest rate environment in which we currently find ourselves. If you don't stay abreast of these changes, they could adversely affect your policies—or even render them essentially useless.

Well guess what? It's not your responsibility to stay up to date on insurance policy changes—it's your agent's job. So if your agent is no longer in the business or doesn't seem to have his or her ear on the pulse of changes that could affect you, then you can stand against industry norms and demand more.

Let me share a few examples of recent policy changes and how they could affect you.

Paying Ridiculous Penalties

About a decade ago, there was a trendy financial product that was all the rage, known as a *guaranteed universal life policy*. This policy theoretically offered similar guarantees of performance that a whole life policy would traditionally offer, but at a lower price.

Sounds nice, right?

The problem was there were certain caveats that, if not strictly followed, could result in not only the loss of the guaranteed performance, but also trigger a whole new set of costs almost two to three times the originally projected amount.

One particularly nasty caveat was that when the entire annual premium became due, it had to be paid *strictly* on time. The penalty for a late payment could cause the insured to be charged under a totally different scale for actual mortality costs, causing a new premium of two to three times the original projected amount!

TERMS TO KNOW:

Mortality Cost: In the world of life insurance, costs are largely defined through the use of mortality tables. To help insurers figure out how much to charge in premiums, they need to use mortality tables to figure out the mortality cost. The *mortality cost* is equal to the face amount of the policy multiplied by the chance the policy will have to be paid out as a claim (specifically, that the insured will die). Therefore, the higher the chance (a.k.a. the sooner) the policy will have to be paid out as a claim, the higher the premiums will be.

Quite a penalty for missing a premium inadvertently, no? Do you think most people read the fine print? Of course not. They expect their insurance "expert" to have their backs!

Unfortunately, that expectation can cost them dearly. The industry has set so many agents up to fail—and the clients are really the ones paying for the lack of training and support that befalls so many in this business.

Fooled by the Smoke and Mirrors

Another example of a pricing change that is adversely affecting policyholders is the one laid out in a recent memo from Transamerica regarding all of their existing policies.

They announced that their agents are no longer allowed to run any "in-force illustrations" at less than their guaranteed rates of credited interest and mortality costs—rates that are *significantly* higher than the current assumptions they are using for their products.

TERMS TO KNOW:

In-Force Illustration (also called an In-Force Ledger): An in-force illustration is designed to be a picture of your policy as it stands now, as in today. It is designed to show you an accurate history of your policy up to the present, with future projections based on current rates and assumptions (not mythical "guaranteed" rates).

Does this new policy make any sense? Absolutely not. And now, because Transamerica has instituted this new policy, here is what that means to you:

You will be forced to pay considerably more than the current cost if you choose to adhere to the illustration (and most people do because they don't know better).

They also recently raised mortality costs by more than 100 percent (raising the overall cost of insurance) on most of their products already in force for clients over 60. These new additional costs make many policies unaffordable for clients who had been paying considerably less for years.

The only one who stands to gain from these new policies is Transamerica. Their decision to run no illustrations at less than those guaranteed projected costs gives them room to keep increasing rates until they hit those limits.

Transamerica is not alone in this practice, as three or four other major carriers have also proactively raised mortality costs on their contracts, despite the fact that people are living longer (meaning mortality costs should actually be cheaper).

What certain companies are not telling clients is that life insurance illustrations are not guarantees of anything, much less future performance (especially when they are not even based on current conditions). Today, illustrations are little more than marketing tools—just smoke and mirrors that often cause clients to spend more than they should. Relying on an illustration alone is an unwise strategy, but they help sell more policies and keep costs sky-high.

Not all carriers are engaging in this practice. The forward-thinking, proactive ones are finding other ways to cope and invest. Nevertheless, these changes highlight the necessity of having a professional review ALL of your policies *at least every two years*.

Not All Carriers Are Created Equal

There is a larger potential problem with this new trend of hyper inflating rates. Carriers such as Transamerica, AXA, ING, Lincoln, and others have raised their rates on all of their "non-guaranteed" products so much that they are at risk of plummeting sales because they can no longer remain competitive in the marketplace.

Guess what that does to their "guaranteed" products? If these companies are forced to sell those policies to third parties (in an acquisition, for example), there goes the "guarantees" we were all promised!

Remember that with "no lapse guarantee products" there is no cash value to access; there is just a "promise" to pay when the insured dies. If these companies are downgraded, sold, or acquired (as Phoenix Life was in 2015), clients are left scrambling to try to switch their policies, as the new companies will not make guarantees of the old products.

In sum, guarantees are only as good as the companies making them—another great reason to have your portfolio reviewed by experts every two years. It's also why…

Your carrier choice is SO much more important than you think!

Take a look at a recent notice concerning some of the whole life policies put out by Lincoln Financial Group:

Guideline Premium Limitation Notice

> "The requested change to this policy has caused a recalculation of the IRS Guideline Premium limitations for this policy. The policy is currently in compliance with these limitations and additional premiums may be paid into the policy.
>
> However, in the future, the Company may be unable to accept additional premiums and may be required to refund premiums paid into the policy to remain in compliance. In the future, the inability to pay additional premiums may adversely affect the performance of your policy, and might result in your policy performing like a term insurance policy."

This ominous advice was followed by the usual attempt by companies to avoid any liability for such a depressing announcement.

> "The information above is NOT intended as legal or tax advice. For such advice, the taxpayer should consult his or her attorney or tax advisor."

Umm, what exactly do they mean that a whole life policy "could perform like a term policy?"

Over 99 percent of term policies lapse because when low guaranteed premiums end at the end of the "term," annual costs go up dramatically, and clients stop paying premiums.

Are they suggesting that this could now happen on a "permanent" policy?

Disturbing? You bet!

Let’s discuss briefly how this situation could even arise.

Per the Internal Revenue Service (IRS) code, years ago laws were passed that stated there had to be a sufficient “corridor of insurance” (amount of pure insurance protection) over and above the cash value within a policy. The goal of these laws was to prohibit an individual from buying a life policy with so little actual at-risk insurance that the contract would basically operate as a tax-favored investment rather than “life insurance.”

Makes sense, I suppose. All well and good.

Here is an explanation from another carrier, AXA, who put this memo out for financial professionals in November of 2013:

“Guideline premium limits and negative guideline premium rules apply to all policies tested under the guideline premium rules and are not unique to our policies. Policies qualifying under the cash value accumulation test (CVAT) are subject to a different set of rules, which limit cash values relative to the level of benefits being provided under the policy.

Life insurance provides a number of tax advantages to the policy owner while the insured is alive. Because the IRS and Treasury Department were concerned that investment-oriented products could be disguised as life insurance in order to take advantage of this tax-favored treatment, they have a Federal income tax law enacted in the 1980s that defined life insurance. Some of you may recall one company’s product, which featured a $1 million dollar premium and only provided a constant $10,000 of insurance risk that was held out as an example of an investment abusing the ‘life insurance’ label.”

And so on for another seven pages or so.

The intended audience of this memo was "financial professionals" and not clients—but how in the world could anyone (professional or not) sum up such vague verbiage and pass it along to their clients in a meaningful and helpful manner?

TERMS TO KNOW:

Guideline Premium Test (GPT): A test used to determine whether an insurance product could be taxed as an "insurance" product rather than as an "investment." The GPT limits the amount of premiums that can be paid into an insurance policy relative to the policy's death benefit. If an insurance product fails this test, it is no longer viewed as insurance and is taxed like an investment.

The memo goes on to state there will be policy changes that will potentially negatively affect the following: the amount of death benefit provided by a policy qualifying under the guideline premium test (which most policies are), partial withdrawals, positive changes in health rating (for non-tobacco use, for example), reduction in rating, among other things.

The memo later suggests that clients can avoid potential negative consequences of violating the guideline premium test by ordering an in-force illustration from their agent before any adverse changes go into effect. Since the in-force illustration shows an existing life insurance policy's future premiums, cash values, and death benefit, it should illustrate the consequences of any changes.

Well, that sounds like good advice—but wait! What if your policy happens to be with Transamerica? Remember, they aren't even allowed to run in-force illustrations anymore that don't use their guaranteed rates (effectively giving clients a completely inaccurate snapshot of their policy and its future projections).

To add insult to injury, the memo then states:

> "Unfortunately, there may be scenarios where no good options apply. If your client has encountered financial difficulties and needs to reduce the face amount substantially just to keep some insurance in effect, you may not have much flexibility about the timing of the decrease… Additional premiums in excess of the policy's guideline limit can't be paid until the policy is ready to lapse and your client can afford these increasingly high premiums."

For a statement that is "NOT legal or tax advice," this certainly sounds steeped in legalese, doesn't it?

In simple English, what happens if the client cannot afford those increasingly high premiums?

And what if the increasingly high premiums are caused either by the client not keeping current with payments (happens around 80 percent of the time), or by carriers such as AXA, Lincoln, Transamerica, and ING raising the cost of insurance charges because they want to become more profitable?

In the end, the answer may be "tough luck" for people who thought they were being smart all those years ago by investing their hard-earned money in a whole life policy.

Although these problems with the negative guideline premium limitations are unintended consequences of regulations, the root cause of problems is poor management and performance of these policies. Having said that, the "cost of insurance" (also known as COI) increases have certainly exacerbated this problem.

TERMS TO KNOW:

Cost of Insurance (COI): This term applies to life insurance policies (such as variable and universal life). COI is a charge that is assessed against the policy based on the insured's age, the original rating class (risk category), and the current net amount at risk. COI includes monthly charges for mortality (a charge that compensates the insurance company in the case the insured person doesn't live to the assumed age), administration, and other aspects of expenses incurred by the life insurance carrier company. In most cases, COI is deducted from any premium payments made before crediting the account's accumulation value.

Note that AXA's memo was addressing increases on only a small block of guaranteed universal life (GUL) policies. Other companies such as Lincoln, however, have raised COI's on a more broad scale, so we will see some staggering issues with Lincoln policies that have both the COI increase and the Guideline Premium Test (GPT) issues.

These are problems that cry for expert intervention. As another expert in the industry who sees a lot of policies told me:

> "Yes, this is very difficult to deal with. A lot of underperforming universal life (UL) contracts run into this problem, especially if they have been in force for 20 years or more. Basically, there are or could be limitations as to how much premium can be paid and the policy still qualify as a 'life insurance' contract. However, the owner can always pay COI charges to keep the policy afloat, but that can be incredibly expensive.
>
> Unfortunately, this happens with a decent number of carriers on old UL contracts, and I haven't seen any way of effectively mitigating this other than paying COI charges when they come."

This crisis calls for innovative thinking and problem solving. You need an expert who will not only decipher the potential problems, but can also help you implement the most effective strategies for dealing with these unanticipated problems.

These solutions could range from carefully restructuring policies for older clients to include either a settlement option that can provide cash for the client, a retained death benefit with no further premium, or a combination of both — or even a new policy if they qualify health-wise.

"Whole Life" May Not Be So Whole

People are living longer than ever. While that may seem like a good thing to many, there is a new and unexpected downside to increased longevity. According to a recent *Wall Street Journal* article, some outdated provisions exist within many life insurance policies that place "expiration dates" on the benefits.[1]

The article featured a man named Gary Lebbins. Mr. Lebbins owns two universal life policies totaling $3.2 million in death benefit. Unfortunately for Mr. Lebbins, who is about to become a centenarian, his policies expire at age 100, which means that the death benefit will be terminated on Mr. Lebbins's next birthday and he will get the munificent sum of $10,000 remaining cash value from his policy.

To date, Mr. Lebbins has paid in more than $1.5 million in premiums to Transamerica Corp. over the years for those two policies—seemingly all for nothing.

Such limits were not an issue until recent years when more people started living beyond 100. In 1980, there were just 32,194 centenarians in the U.S., but as of 2010, that number rose to 53,364 and is steadily growing.

1 Scism, Leslie. Happy 100th Birthday! There Goes Your Life Insurance: Age limits are increasing problem for life-insurance industry. *Wall Street Journal*, July 20, 2017.

Today, the industry uses age 121 as the standard maturity date in contracts. Unfortunately, there are an unknown number of older contracts out there with the 100-year-old limit or even 95-year-old limit in some instances.

The article goes on to state that, "some insurers previously offered older policyholders the opportunity to extend the age in their older policies with varying financial terms." Sadly for the Lebbins, Transamerica is not willing to offer an extension.

What does that mean for you? First and foremost, if you are in your late eighties and own a whole life policy, check the provisions as soon as possible to ensure that your policy's expiration date extends beyond age 100. Those who are healthy enough can often replace these outdated policies with better ones. If there is no extension possible, then you may be better off selling the policy before you reach 100.

This is just another example of the major carriers' inability to take into consideration the unique needs of its customers. Fortunately, there are solutions, as long as you haven't reached the expiration date of your policies—which makes it all the more important to talk with a trusted advisor today.

Bottom Line? The Industry Needs a Serious Makeover

Recently there was a very large monetary settlement among some of the major carriers sued in a class action initiative.

The premise for the case? That while insurance companies were being very diligent in ascertaining client's deaths for annuity payout purposes, they were not proactively informing policy owners at the same time that death proceeds were owed to them.

Here is an official summary of the 60-minute TV expose about the case and this lack of "proactively" informing policy-holders about their proceeds:

> "When you take out a life insurance policy, you pay premiums in the expectation that when you die your spouse or your children will receive the benefit. But, as we reported in April, audits of the nation's leading insurance companies have uncovered a systematic, industry-wide practice of not paying significant numbers of beneficiaries.
>
> At the time of our broadcast, 25 of the nation's biggest life insurance companies had agreed to pay more than $7.5 billion in back-death benefits. However, around 35 insurance companies still had not settled and remained under investigation for not paying death benefits when the beneficiary was unaware there was a policy, something that is not at all uncommon."

The inclusion of this story is not meant to be an indictment of the entire life insurance industry. There are many committed, honorable people and executives who underwrite products for which there is a genuine need. But rather, it is meant to illustrate the critical need for clients to ask the right questions in order to find knowledgeable, trustworthy advocates who will protect their interests.

You need an advocate who has the ability and the desire to accurately and completely analyze your policies from a performance, administrative, and tax perspective. We are talking about professionals who can then take their knowledge of the industry, current events, and ever-changing policies, and counsel you on how to best fulfill your goals, maximize your values, and/or mitigate any losses.

Life insurance policies are highly complicated contractual obligations with a lot of moving pieces intrinsic to the policy. There are a large number of variables that can and will affect performance and overall cost.

One major variable is what is happening with interest rates—both short-term and long-term—as insurance companies are heavily invested in various interest-rate sensitive products in their portfolios. Other factors many clients don't realize come into play are company administrative expenses and profitability standards that can directly affect the amount of charges levied on policies annually.

In addition to the many variable factors that can and do affect performance of the policy, the contracts themselves are incredibly dense in legalese. It helps to have a layman's understanding of what your rights and obligations are—and that takes a qualified, experienced insurance professional to explain it to you in a way that is both clear and straightforward.

Administrative errors also run rampant in our industry, ranging from incorrect beneficiary lists (not updated after a divorce, for example) and incorrect personal data to the many tax issues that can arise through lack of careful inspection of the unique and specific needs of each client.

Your policy—no matter what you've been told—is not a static investment. It is one that clearly needs a bi-annual review to track performance and compare that to what was originally illustrated.

Use this book to arm yourself with some basic knowledge and to help you identify the attributes of a trusted advisor—a professional who can help guide you to make the best decisions for your future, ones that will help you rest easy, knowing your assets and your legacy will remain intact.

CASE STUDY

Getting Creative: The Real Work of a Trusted Advisor

Price increases for insurance costs, combined with the risk of violating the guideline premium limitations (as defined in the GPT), could result in some extraordinary premiums later in life.

This is a lesson that Joe now knows all too well:

Joe was a healthy 89-year-old who purchased a Lincoln policy 12 years ago. The suggested annual premiums were $126,000 for a $5,250,000 policy.

Joe received a notice that his premiums might not be sufficient and also might run into guideline premium issues. A new illustration showed the $126,000 increasing to $327,000 at age 95, $608,000 annual at age 96, $781,000 at age 97, and exponentially higher each succeeding year.

Joe's remaining life expectancy was at least eight years or more. He *was* feeling good—but was now worried he might not be able to afford living much longer!

His advisor decided to place the policy in the settlement market, where a buyer would take on the risk for all future premiums and provide Joe with approximately 60 percent of the value of the contract at death—tax-free—into the trust that owned the policy.

This creative solution dealt with the potential for gift taxes on the extremely high premiums (which would be necessary as Joe got older).

Joe was delighted “to take the risk off the table” for all future premiums, while still preserving a significant amount of proceeds for his heirs.

It’s a good thing Joe’s agent didn’t simply send a notice in the mail that was steeped in legal terms and let that suffice! The solutions are not always clear, but the best advisors don’t rest until they find solutions that will ensure that their client’s future is protected.

SECRET 2

CONSULTING VS. SELLING

"I don't like conflicts of interest; they should be eliminated or disclosed. I believe in transparency: that people have to really not just know but understand what they're buying and selling."

— Eric Schneiderman, New York Attorney General

THERE IS A huge, awkward, lumbering elephant in the room when it comes to life insurance.

What am I referring to?

It's the fact that most clients are sitting across the desk from their advisors, with no idea what those advisors are really saying.

I can relate to that. At thirty years old with my first child on the way, I had been in business about five years and things were progressing nicely. An elderly gentleman who had been incredibly successful in the life insurance industry came calling.

I noticed two things when I first met him.

First, he was brilliant—but he talked about interest rates, arbitrage, and special tax considerations at a level far beyond my comprehension. As he went on and on, I started thinking of him as a rocket scientist; he was just so dense and complex. Second, I could tell he was highly persistent and was not the type of guy who takes "no" for an answer.

In short, he spent our time together using an incredible amount of jargon and a series of hard closes.

As our meetings went on, I eventually felt the strong desire to buy what he was selling, in large part because I knew I needed to protect my family and the tax advantaged buildup of cash sounded good. Even more importantly, however, I wanted to stop the one-sided discussions I didn't really comprehend.

It sounds pretty foolish in retrospect, but there is so much more emotion than logic in sales situations than we may realize.

To make a long story short, I bought everything he proposed—hook, line, and sinker.

And then I quickly became familiar with the feeling of buyer's remorse.

Not only could my business not afford the suggested premiums several years down the road, but the tax advantages he was touting from some "special formula" he worked out with his life carrier were quickly disallowed. Soon, it became obvious that there was no reason for me to keep the policies anymore.

What an experience! That incident never left my mind and is one of the most compelling forces that made me search for a different way to do business when I transitioned into the life insurance industry years later.

This well-educated, well-spoken salesperson had been a fine, friendly person. I also don't feel that he was intentionally manipulating me in any way. He simply made one fatal error—he did not take the time to relate to me on a transparent, understandable level.

The Only Way to Earn Trust

If you are reading this right now, I bet you know exactly what I mean. You sit in front of the professionals of the world and put your trust in their hands because they have the degrees or the letters after their names that say, "I know a lot more than you."

And we *should* trust them—but not all of them.

Why? Because trust must be earned!

Clients deserve to have things explained in a way they can understand. They deserve to be educated in simple terms about all the risks and possible advantages of buying or not buying an insurance product. Clients also deserve to not be pressured into buying through pushy sales techniques.

Clients must feel *respected* before they can *respect* what their advisor is telling them.

I bet if you stop anyone on the street right now and ask, "Do you like to feel heard?" every last person will say, "Of course!"

We all like to feel heard, and we all like to know that we are not being treated like some tick mark on a sales spreadsheet.

If you are an advisor or have ever sold *anything* before, put yourself in the shoes of the prospective client for a moment. As the client, you are sitting there, listening to some stranger try to convince you to take a little or a lot of your money and spend it on this product or service they are selling.

With every word the salesperson speaks, you are thinking a million things, some of which are:

- How long will this take?
- Do I need this?
- What will my spouse think?
- Did I shop around enough?
- How long has this person been doing this?
- What's for dinner?
- How will I know I'm making the right decision?

And so much more.

If that product you are considering is life insurance or a life insurance-related service, then as the client, you are entrusting an advisor with your life—literally. So it makes considerable sense for that advisor to understand just what that life represents—including your priorities, your goals, your dreams, and your wishes for your family.

That type of understanding takes both time and a sincere desire to connect through relating to the client on a personal, deep level and asking plenty of open-ended questions.

Not every client wants the same things out of their insurance and financial products. We really are ALL unique. In order to find the right products, professionals have to dig in and find out what kind of legacy the client wants to leave and whether philanthropy is important in their plan—and those are just two of the numerous areas that must be discussed.

What Real Consulting Looks Like

I was raised with the deep belief that we should always try to do more for the other people in our relationships and to operate with a sense of generosity and respect for others' opinions. This does not mean that I don't have strong opinions based on my experience or my studies, but I prefer to present them in a way that does not try to force those opinions onto others as facts.

Nobody likes to be pushed into buying anything. Most people like to be educated and then make up their own mind as to the most advantageous course of action.

Not only do clients react in a negative way when somebody is "selling them," but professional advisors such as CPAs and attorneys also have a strong aversion to being seen as "salespeople." And yet some of them use jargon and hard closing techniques all day long. Ironic, isn't it?

You've probably heard the idea that "everybody sells." There are plenty of books out there that have popularized the notion that all of us are involved in using our powers of persuasion in our daily lives (both personally and professionally).

While this is certainly true, when it comes to offering financial products as opposed to offering fee-based, financial planning services, everyone seems to intrinsically think, "What's he gonna try to push on me?" when an insurance agent comes around.

It may not be fair, but alas it is the stigma that is currently plaguing our industry. The problem is we continue to perpetuate it by not doing right by our clients—and most of the time, we don't even do it intentionally.

Let me share a recent example of an analysis I did for a prospective client—let's call him Peter. Peter came to me looking for a review of several whole life policies he had with a major whole life carrier.

While we were talking, I asked Peter *why* he had purchased the insurance. He shared two reasons: 1) He was concerned his health was at risk and wanted to lock in some policies at favorable underwriting standards, and 2) He liked the person who had presented the insurance.

The first reason many people can relate to. The second reason makes sense, too. People tend to do business with people they like. Unfortunately, this likeable sales agent had neglected to paint a full picture for Peter of his policies, their potential, and perhaps more importantly, their potential drawbacks.

As Peter and I began to review his policies, I quickly noticed that the particular whole life policies he had could produce *far* less than maximum results for clients if not consistently monitored and tweaked. They are “cash rich” policies that, after time, may not require further premium — but this is because there is so much cash in them that the carrier really has very little at risk.

Here is how cash-rich policies work:

At maturity, let’s say the policies produce a death benefit of $1 million, BUT there would be $800,000 of cash locked in the policies.

Here’s the cold, hard truth about that — if you die with a $1 million policy with $800,000 of cash in it, your heirs receive the same $1 million they would have received if the policy only had $50,000 of cash in it. *(Note: I am simplifying to make a point. It is not advisable to strip so much cash out that a policy could lapse.)*

My analysis showed that there were two options to improve Peter’s situation. He could either 1) Take the cash in his policies and buy almost 175 percent more death benefit, or 2) He could embark on a program to take tax-free withdrawals from the excess cash and still maintain approximately 40 percent of his current death benefit, but receive close to $400,000 tax-free cash over a fifteen year period.

His choices were clear and transparent. The question he then had to answer for himself was whether he wanted more death benefit or more cash benefits during his lifetime.

I didn't try to steer Peter to either choice; the decision was his as to which was more attractive. No selling—just *consulting* in a clear and transparent way, with the help of side-by-side comparisons.

The whole concept of *educating* and *consulting* with clients and centers of influence versus *selling* a product resonates deeply with me. Today, I feel blessed that my work is primarily of a consulting nature, as the vast majority of my time is spent reviewing existing life insurance portfolios as opposed to trying to make new "sales."

A consultative approach that is based on relationships and education is what clients want and need. As cliché as it may sound, there are no losing parties with this approach—it really is win-win.

Advisors will enjoy longer lasting relationships, discover deep sources of referrals, and, ironically, make more money. Clients will have greater piece of mind, have confidence in their future, and be able to enjoy life more. Not to mention they will refer everyone they know and care about to the advisor who gave them what they really wanted—a say in their own future.

Have you thought about the relationships you have with your own advisors? How often do you see them, and how often do they ask you about your life and what changes you may be experiencing?

As they say, the only constant in life is change. The first step to ensuring you can maximize the potential of your policies is to align yourself with consultants who can help see you through the changes and come out stronger on the other side.

“Your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work. And the only way to do great work is to love what you do. If you haven’t found it yet, keep looking. Don’t settle. As with all matters of the heart, you’ll know it when you find it.”

— Steve Jobs, Apple Founder, Businessman, Entrepreneur, and Inventor

SECRET 3

EVOLUTION OF THE LIFE INSURANCE DOCTOR

"Success is very shallow if it doesn't have emotional meaning."

— Howard Schultz, Starbucks CEO

I CARE DEEPLY about one particularly neglected word in the English language.

WHY.

When we were kids, we all wanted to know was "why." As we were discovering life and all of its wonders, this single-word question came from a place of wanting to know how the world around us works.

As we grow older, we seem to stop asking that question and for the most part, we just accept what we are told. For example, on the cover of this book, I promised to reveal to you the single biggest secret hidden in life insurance policies. I plan to do that in the next chapter and elaborate on it for the remainder of the book—but before I do, I want to do my part to help bring the WHY back into the equation so you don't have to take my words at face value, but rather see their meaning and context behind them.

I want you to truly understand WHY you are reading this book today. Part of that understanding comes from learning the journey in my life that led to me to my real passion in life and to eventually being known as the "Life Insurance Doctor."

I wasn't always a part of something I was passionate about and I was left wondering WHY I felt a void in my life. After years of searching, I found that thing that included the emotional meaning and the true satisfaction I had doubted even existed.

I was the oldest child of a mismatched set of parents. My father was the third-oldest child of immigrant parents who came to the U.S. from Russia in 1914 to escape the terrible anti-Semitic conditions that were so pervasive in Russia at the time. They were determined to create a good life for their children, so they worked hard to learn enough English to function and then started a retail store selling poultry and eggs.

Dad learned how to drive a truck at an early age, and as a child of the Great Depression, he appreciated being in the food business, because as he always said, "People have to eat."

He was an extremely hard worker and prided himself on always trying to use common sense. Over time, he ultimately became the sole owner of a wholesale food distribution business that evolved out of his parents' original storefront retail outlet. It was this business that became my place of employment and my way of paying for law school after I gradated from Ohio State University.

It was *not* my first choice to work there. I had grown up seeing first hand the difficulties of being involved in a small family business, and

I saw the long hours my dad worked, with no visible satisfaction. I also witnessed the arguments he had with family, customers, and vendors.

Dad's overall perspective was a fairly callous, pessimistic one—to him it was a dog-eat-dog world. If I had been in his shoes, I might have felt the same way. He was a survivor of the Depression, as well as the continual survivor of a dysfunctional relationship with his beautiful, brilliant, but spoiled bride (my mother).

As the years passed and he spent more time at work and less time with the family, it made me yearn for a relationship with him. I watched my father live and breathe his work—work that he didn't ever seem to enjoy. At the same time, he rarely came to any of my ball games or stopped to do anything fun with us.

A Delicious Way to Stand Out

These experiences all served to imprint within me several deep desires. First, I decided I wanted to have fun while I worked and to be passionate about whatever it was that I was doing. My desire for forming positive connections and giving and receiving encouragement became very strong. I also wanted to connect with people and be a problem *solver* rather than a problem *maker*. I strove to become innovative and look for unique solutions that were not seen as commodities.

I wanted to find fresh ideas that were ahead of the curve.

This desire for innovation was born out of my early experiences as a fledgling salesperson working for my dad and trying to sell food to restaurants and other outlets. When I called on a store and the first question out of their mouth was, "What's the price of eggs today?" I knew I'd never make any real money there. I'd only be seen as a warm body selling a commodity good for the lowest price.

I didn't want to be viewed this way—as just another face in the crowd. I wanted to be seen as someone special who provided unique value and exclusive services.

One of the greatest successes I had while working in my Dad's business resulted from searching for a product that would enable me to stand out. It was two words that almost everyone loves:

Ice cream.

I was fortunate to stumble upon the Haagen Dazs brand ice cream in 1977 before it became as popular and well-known as it is today. I saw an advertisement for it in the Neiman Marcus Christmas Catalogue. It was just ice cream, but it was being offered for $60.00 a gallon! Now that must be some special ice cream—and just the kind of product I needed to differentiate and define myself.

I flew to New York, met with Ruben Mattus, the inventor and manufacturer of the Haagen Dazs brand of treats, and made a handshake deal to market and distribute this new breed of "high-end" ice cream in Northeast Ohio. This deal lasted for over fifteen years and brought profits of up to $1 million annually as the product became more and more widely recognized and sold.

My success with Haagen Dazs led to my ability to obtain marketing and distribution rights for Dove Bars when they were starting out as the hottest ice cream du jour. This led to deals with Ben and Jerry's, Good Humor Ice Cream novelties, and other assorted, exclusive-representation relationships. I felt very much "in the zone" of what I wanted to accomplish.

Unfortunately, somewhere along the way I lost sight of what had made our operation unique, and I decided to grow the business to include the widely distributed half-gallon type of ice cream product—which is much more of a commodity than my previous novel and exciting offerings.

Pretty stupid, huh? As my Dad had often told me, "Volume is secondary to profit."

Oh, how those words haunted me after the fact.

Our success in marketing Edy's half-gallon line was our demise. When we signed the deal with Edy's, I made a critical error in not asking the golden question: "The deal looks good in theory, but how much will we actually make per case, and how much will it cost us to market and distribute it?"

The answer to that unasked question quickly became, "We will lose money for every case we sell." On paper we moved a lot of ice cream; we sold 1.5 million cases our first eighteen months. But we lost $1.00 per case—and our business at the same time.

We overestimated our profitability on the item, as we were compelled to bargain price it as a commodity to ensure we had sufficient distribution through the stores to keep it on the shelves. We were using our projections and margins from past products, failing to take into account the concessions we would have to make to sell a commodity-type product.

Today that business represents almost a 40 percent market share of ice cream for Northeast Ohio and would be considered a very valuable business. It just wasn't the real deal or the right timing, nor was the half-gallon ice cream the right product for our business model.

How I wish I had a close relationship with a CPA at the time who could have provided the type of caring but critical feedback that might have led me to pass on the deal. Ultimately it was my responsibility—and before I knew it, I found myself out of the family business and looking for a way to support my wife and three young children.

Losing My Way and Finding It Again

My CPA suggested that financial services might be a good option for me. It was a field that offered me a way to utilize my law degree, marketing experience, and sizable Rolodex of influencers. I eventually realized it would also become a way to fulfill my passion for empowering people to be philanthropic through good estate planning and utilizing life insurance as a tool for accomplishing both family and charitable objectives.

I also liked the idea of not having to invest in goods, services, warehouses, or trucks! Nor would I have to hire a horde of employees and deal with all the complications that come with HR issues.

So in January of 1995 I began employment with Cigna Financial Advisors, a planning and fee-based firm offering life insurance products and investments.

To my disappointment, I soon realized I was being viewed as a commodity yet again. Despite my best efforts, I could tell that prospective clients saw me as “just another salesperson” selling the same products they could get from any number of other agents.

Thanks to my experience with delivering Haagen Dazs and other novelty ice cream products, I had experienced what it was like to offer something different and exciting—products with distinct, tangible benefits to customers. How could I find a parallel product or service that mimicked that wonderful experience, both for me and for customers?

It wasn’t going to be easy, simple, or obvious, that much was certain.

It took over seventeen years of searching in the wrong places to finally come to understand that I wanted to do more than sell products—I wanted to help people rediscover their WHYS:

- Why are they looking to buy these products now?
- Why do they want to invest in the future?
- Why is their legacy so important to them?
- Why do they want to give back?

I felt I could become a *problem solver*, providing a service that provides tangible benefits such as cash, cash savings, and tax savings, as opposed to selling something.

One of my best referring attorneys started calling me the "Life Insurance Doctor" when he would send troubled clients my way. These were clients who were desperate to get to the bottom of their insurance woes. The moniker resonated with me, because it was exactly what I felt I was doing—I was fixing broken policies and making them healthy again by turning them back into the money-generating, tax-saving devices they were supposed to be all along.

I am happy to report that last year my work provided over $15 million in assorted tangible benefits for my clients out of their existing policies. That's $15 million they didn't even know was there, that was manifested into existence (and would have been lost forever without intervention).

It also generated many satisfied clients, many of who told their friends and family about the process—and the referring CPA or attorney would then end up with some new clients. Nice side benefit!

A Mile Wide

No one wakes up in the morning and says, "I want to do forgettable work," and yet so many people in this world act like it. I learned a long time ago that there are people who *say* they value relationships in business (because deep down, everyone knows you should) and then there are people who actually walk the walk. I work tirelessly to establish loyal, mutually beneficial relationships with other product and service providers who are the best at what they do in order to enhance the overall offering.

In other words, I create partnerships with only the best of the best and surround myself with like-minded professionals who have a passion for helping the *people* behind the products and the policies.

I also learned the great value of not just education, but of both *continuing* and *diverse* education—and that extensive knowledge became a differentiating factor in my business and help set me apart from the pack.

The most successful professionals in any industry are often those who have been involved in multiple facets of the business, not those who have simply operated in the same position for the longest amount of time.

For example, the best booking agent for special events likely has inside experience (such as working for a major hotel) and can therefore be more adept at knowing how to maximize value for their clients. The tax attorney who used to work for the IRS often rises to be the most prominent and expert tax practitioner who understands both sides of the fence. The criminal defense attorney who used to be a prosecutor has a similar advantage.

There are really only two types of knowledge that professionals seek—there is knowledge that's "***a mile deep***" and there is knowledge that's "***a mile wide***." When it comes to a doctor who specializes in one niched area of medicine (sports medicine or oncology, for example) you absolutely want that MD to have *deep*, specialized knowledge and insight into that one area.

However, when it comes to the professionals you entrust to ensure you can live retirement on your terms, leave a legacy with your family, and give back to charity, you need someone who has knowledge of not just life insurance, but also tax implications, the investment side of the market, accounting, legal implications, and so much more. Our knowledge should be a "mile-wide."

My passion—born all those years ago selling eggs at slashed commodity prices—is to offer my clients a depth of knowledge in the financial and investment realm. Then I partner with other experts to offer the most comprehensive "mile-wide" service in the industry.

Partnering Together to Build Value

Today I'm committed to helping as many clients as I can find the help they need and to partner with other advisors who have similar goals for their clients. One of my strategic partners is Geoffrey Gottesman, the managing partner at Genesis Asset Advisors in New York and a contributor to this book. I'll let Geoffrey tell you in his own words a little about himself and our partnership:

Albert Einstein once said, "Strive not to be a success, but rather to be of *value*."

Much like the importance David places on the word "why," the word "value" is one that I hold close to my heart in everything I do. According to the dictionary, the word *value* can mean:

- The regard that something is held to deserve; the importance, worth, or usefulness of something (as in "Your support is of great value.")

- A person's principles or standards of behavior; one's judgment of what is important in life (as in, "His internalizes his parents' rules and values.")

Value is such an important word, but it is also one that has lost much of its power today through its overuse as a buzzword in business and marketing.

For me, value is something I discovered at an early age. I grew up in a home full of values, and they accompany me into every endeavor and every relationship, both personal and professional.

When I was young, I heard the stories of my maternal grandparents' escape from Russia with fake passports. What they valued had come under attack, and they did whatever it took to flee in order to preserve what they valued and cherished most.

I also learned of my paternal grandfather's struggle. His first wife and their children were wiped out by the Nazis during World War II. He married his niece (my grandmother) after the war because it was the only family either of them had left.

I am grateful to have a family history full of strong beliefs and values worth fighting for. Although I would never have to endure the struggle and tragedy that my grandparents did, I knew I wanted to find my own way to stand for something in the world and display the values that had been instilled in me.

After college, I started my career in the investment and financial services arena by selling life insurance. The entire process just wasn't for me. I didn't want to spend my life convincing folks to come in and meet with me so that I could sell them a product.

I wanted to do something that would add *value*.

That's when I was introduced to life settlements. I was immediately fascinated by the market and an opportunity that most (even other professionals in my field) didn't even know existed!

I worked hard to build value for my clients and was eventually given an opportunity to run Genesis. I was ecstatic to finally have the platform upon which to build a business based on a profound mission and the values that mean the most to me.

That mission? To make policy owners aware that they have an untapped, underserved asset already in their possession that can put their hard-earned money back into their pockets to ease the retirement years.

Those values? More than anything else, we value honesty and authenticity. We have our clients' best interests in mind—and we also have fun while helping them.

A mutual associate introduced David and me a few years ago. We immediately synched because of our shared desire to add value to our clients and to our family, friends, and associates in our everyday lives.

Why the quote from Einstein? It's not because I don't value success. It's because I believe that if you add *value*—and then and stick to your values—success will surely follow.

Now that you know a little bit more about what makes me tick and what drives my strategic partners like Geoff to do what we do, I hope that it gives the words in this book more meaning and sturdier context.

Why?

Because I am ultimately writing this book to impress upon you the importance of digging, of finding that why, and then carefully aligning yourself with like-minded professionals who are interested in making their living not just selling products, but finding the right products that help you live your why and live it abundantly.

We are going to move into some really fascinating stuff now—and by fascinating, I mean we are well on our way toward discovering a tool that will put more money into your estate, now and after you are gone. As you read, remember that I'm just a guy who sold some ice cream before he realized that his real passion in life was helping people live out their own passions and goals by utilizing some of the underutilized ideas and devices available to us.

SECRET 4

THE SEVEN DEADLIEST MISTAKES WEALTHY CLIENTS MAKE

"A smart man makes a mistake, learns from it, and never makes that mistake again. But a wise man finds a smart man and learns from him how to avoid the mistake altogether."

— Roy H. Williams, American businessman

IN MY PURSUIT of helping people find their why and build value, I started to notice some disturbing similarities in wealthy clients' portfolios that were causing significant issues, and more alarmingly, costing clients millions!

If you have ever felt overwhelmed by the fine print when it comes to your investment vehicles—the things you have put in place to ensure the future of your estate and keep your legacy intact—you are not alone.

Life insurance is complex, highly regulated, and full of loopholes and restrictions that cause many consumers to lose confidence in their level of protection and even their very future.

That doesn't have to be your reality—but in order to feel confident and secure, it requires taking an active role in your policies and being *proactive* rather than reactive with your estate planning.

To help in that endeavor, let's explore some specifics regarding the various problems that life insurance policy owners face by not doing regular bi-annual reviews, as well as some case studies that relate to a few of these points. There are seven major categories that must be addressed, checked, and double-checked to ensure you are not potentially losing millions of dollars.

Mistake #1: Filing incorrect administrative details (including ownership and beneficiary listings)

People buy life insurance policies for specific, important reasons. But the tragic truth is that those intentions will never be fulfilled if there are errors in how the application was filled out. This one should be a no-brainer, but it is an area that causes so many needless issues, headaches, and regret.

The consequences of incorrect application information could range from having proceeds become taxable rather than tax-free to not having the money go to the intended beneficiaries in a protected manner. It is critically important to make sure that basic information from which the insurance carrier will operate is both accurate and complete.

Mistake #2: Keeping out-of-date, non-performing policies

Insurance carriers are constantly updating their products in an attempt to make them more valuable to their market. For this reason, factors such as changes in mortality costs, the introduction of hedging techniques to protect against market declines, and updated life expectancy estimates can greatly affect the design of newer products.

If clients do not have the opportunity to know what is available so that they can compare those products to what they currently own, they will often be at a disadvantage. Here is a case that effectively illustrates this point:

I met Larry through a referral contact at a CPA firm. When I explained that I specialize in reviewing existing policies, his eyes lit up. "Maybe it's a good idea to get mine checked," he told me. "I bought my policies years ago and have never had them reviewed."

I certainly agreed that it was time for a review and began my examination of the four policies he owned, totaling $4 million of death benefit.

Two of his policies had been purchased over 25 years ago when companies were operating under different mortality expectations. As a result, these two policies were scheduled to endow at age 90. Remember the *Wall Street Journal* article mentioned in chapter one? In other words, if Larry were still living by his 90th birthday, the policies would be terminated and he would receive some cash benefits, which would be less than the full amount that would have been paid as a death benefit. Even worse, that cash benefit would have been partially (and heavily) taxable.

The other problem with these policies was that they were whole life policies, which require significant continual funding. So in effect, there were monies sitting in the policies that could be used more strategically to purchase more insurance and other investment vehicles.

All of these factors painted a drastically different picture from what Larry had expected at the time of purchase.

The other two policies he owned were universal life policies. Universal life policies were created to allow buyers to invest less and still get a death benefit. One of those policies was a *variable universal life policy*, which was a type of whole life created in the 1990s. It was designed to allow buyers to participate in the stock market as a means of potentially increasing the cash portion of the policy by taking advantage of strong stock market performance.

The problem with this first iteration of variable policies was that there was no downside protection available for clients if and when the market declined. So, if the market lost twenty 20 percent, the corresponding cash invested in the policy would lose 20 percent of its value. It did not take long before the buying public and the issuing carriers realized they had to do something to hedge this tremendous risk and avoid potentially disastrous results for so many policy owners.

Soon after, hedging products became available to insurance carriers that would enable them to invest on behalf of their clients while protecting them against downside risk. As a result, variable universal life policies once again became a much more viable option. In fact, today these products are in great demand, as their performance since the addition of downside protection has shown an average growth of more than seven percent.

However, Larry did not have this protection. Therefore, his cash values were much less than originally projected, and he would have to pay considerable monies with a great risk of no downside protection if he were to keep that policy in place.

His remaining universal life policy was also underfunded because he was not aware that he was supposed be paying a certain amount each year. He mistakenly thought it was a flexible premium. None of this was Larry's fault. The person who sold him the policy should have educated him and kept him up to speed.

It's a sad story that I hear all too often in this industry.

After spending considerable time educating Larry and his wife on the potential problems with their existing portfolio and suggesting a few changes, they agreed to move forward with those changes. As a result, they saved $55,000 annually on the new policies, compared to what they would have had to pay for the old ones.

Secondly, we were able to extend the death benefit on his first two policies from 90 years to 120 years. This change prevented the possible issues of dealing with taxable benefits and receiving less death benefit than was anticipated.

Perhaps most importantly, we were able to make Larry's portfolio much more conservative with proper funding, downside protection, and better carriers—all of which enabled him to rest easier and feel more secure about his family's future. Without that review and the knowledge that Larry and his family acquired through our consultations, they would have been sorely disappointed with the results.

Mistake #3: Not paying premiums as scheduled or overfunding them

For various reasons, many clients do not pay their premiums as scheduled. When I review portfolios, I frequently find that many policies are overfunded and many are underfunded. At the point of purchase, buyers were more than likely shown an illustration that demonstrated the results of "proper funding," but more often than not, nobody ever took the time to paint a picture of exactly what that meant. This problem is often compounded by the fact that policy performance is not illustrated at the time of the purchase.

Here is an example of a client who dealt with this issue. John and I met through a referral partner of mine, an attorney who works with high-net-worth clients who have large life insurance portfolios. John owned approximately $25 million worth of life insurance, consisting of seven or eight different policies. By doing a simple spreadsheet and analysis of the performance of each of these policies, we found that by simply reallocating the current amount of premium John was paying, we could extend coverage to age 96 on $8 million of his portfolio (which would've lapsed eight years earlier without our intervention).

In addition, we found that one policy had been greatly overfunded. There was $2 million of extra cash sitting in the policy that could be invested outside of the policy with far reaching benefits to the family. These were profound results considering all John needed was for a trusted advisor to stop and take the time to do a careful analysis of his policies' performances and the corresponding premiums streaming into those policies.

Mistake #4:
Taking risky policy loans

I've heard many agents tell clients that if they purchase a policy and overfund it in the early years, it can be a source of retirement income later in life, with the accrued cash value acting as a "savings account" of sorts. This is certainly true—with one huge caveat. If the policy were to lapse because there was not sufficient money to keep the policy in force, there would be adverse tax consequences.

The reason is because the insurance carrier is compelled to report to the IRS if a policy lapses while there is a loan in effect. The tax consequence is that the loan will be treated as forgiveness of debt, and the client will be charged ordinary income tax on that amount.

I was referred a case that illustrates this in a clear manner. Stephen had purchased several policies that he planned to use as retirement income. Unfortunately, he was never advised of the danger that awaited if the policies were to lapse. Not only were these policies so old that the carrier could not illustrate the future performance of the policies, but Stephen had also been taking money out of the policies without paying any premiums into them. There was now considerable risk that he would be on the hook for hundreds of thousands of dollars in taxes if he did not make changes.

Fortunately, we were able to find a new carrier that would take the existing cash in the policy—as well as the large loans attached to them—and create a new policy at a reasonable cost that would last until Stephen's death. By catching this potential problem in time, and because Stephen was still insurable, we were able to come up with an excellent solution for him and his family.

Stephen's brother Ryan was facing an even more extreme situation. Ryan had purchased a policy 30 years ago. The agent who sold him the policy (who Ryan had not seen or heard from in 20 years) had told him ten years in that in ten years Ryan could stop paying premiums because he had enough cash in the policy to borrow from his existing cash values.

This was not the case—not even close. By the time I reviewed Ryan's situation, his debt and the interest it had accrued had ballooned to well over a million dollars. Not only was the policy going to lapse for lack of performance and insufficient cash to carry the policy through his life expectancy, but there was also serious concern regarding the financial health of the insurance company itself. Double trouble.

This solution required some out-of-the-box thinking. We sought the counsel of an expert tax attorney who helped us structure a sale of the policy to another entity, ultimately allowing us to defer the taxes for twenty years. Creativity and highly specific expertise often plays a part in developing the best solutions.

Mistake #5:
Paying unnecessary gift taxes on premiums

There are a multitude of methods to help reduce or eliminate the payment of gift taxes that can occur for clients paying large life insurance premiums. Not only are there many transfer techniques to fund insurance trusts using leverage, but there is also a highly efficient means of using third-party money from a bank.

This technique mitigates or even eliminates any gift taxes because your premium outlay is reduced by approximately 60 percent! This is such an important strategy that we will cover in more detail in chapter nine.

Mistake #6:
Surrendering policies or letting them lapse

Surrendering your life insurance policies or letting them lapse is common—far too common—especially considering how many other, more lucrative options exist!

Before you ever consider letting a policy lapse for any reason, it's important to know the potential tax implications. It's also imperative that you talk with an advisor about the best-kept money secret in your policy that we will discuss throughout the rest of this book.

Mistake #7:
Not having a bi-annual review with an expert

Hopefully, at this point, it is clear that a multitude of pitfalls can be avoided and significant benefits gained through a comprehensive expert review on a regular basis. Ignore this type of due diligence at your peril.

A review is absolutely essential for anyone who owns life insurance or any other investment vehicle. Most importantly, I believe every policy owner should have the opportunity to take advantage of the tangible benefits of going through a review—benefits such as cash, cash savings, tax savings, and more, as illustrated in the case studies and throughout this book.

Remember, this is not an aspect of life that you can "set and forget." When it comes to your life insurance, it pays to be proactive.

SECRET 5

UNEARTHING SECRET TREASURES

"If a person seeking a hidden treasure buried in the depths of the earth knows it is buried there, he will dig with tireless toil. A person who finds an object, his find is incomparably greater in value than the labor invested in finding it."

— *Chasidic quote*

MOST PEOPLE WHO own insurance know the basic differences between the two main types—whole and term.

The most noticeable difference is that ***term life insurance*** provides death benefits only for a specific time period (aka the "term") with no cash accumulation, while ***whole life insurance*** provides death benefits while it accumulates cash over the course of the insured's entire life.

But did you know that is NOT where the story ends?

If you bought a term policy—and lots of people do for lots of good reasons—you probably have no expectation that it would ever have any real cash value. Maybe you got a term policy upon the recommendation of your CPA or banker who wanted you to have some coverage for loans on real estate or a buy-sell agreement.

Whatever the reason, you are not alone. Term insurance is the default option in the industry because it is the least expensive type of life insurance, specifically for the reason we already highlighted—it does not have or build any real cash value.

Ordinarily, term policies are lapsed or not renewed when the insured reaches the end of that specified term. Then what happens to that policy after it ends? For most people, it goes into the garbage.

I have some good news—that doesn't have to be the fate of your term policies.

So how can these policies have value when most people think they are not even as good as the paper they are printed on after they expire?

I'll tell you exactly why and when they can have value.

One of the attractive features of most term policies is that they give the insured the option to convert the policy to a permanent policy up to a certain age (normally 70 or 75 years). Typically, this exchange requires neither underwriting nor a medical exam. This is good news for policy owners because it means they can convert a term policy into whole life insurance even if their health has started to decline.

It is important to understand that the premium's new rate will be based on the age of the client at the time of conversion. Even if their health has declined, they are guaranteed the option to convert at the same health rating they earned when they originally took out the term policy. Of course, the overall cost of whole life insurance is greater than the cost of term, but the potential arbitrage or value is the promise they can convert at their "old" health rating. So obviously, a term life policy can offer you the advantage of conversion to a whole policy.

But chances are, you already knew that.

Some people, however, don't have any intention of converting their term policy to whole life. What about them? Is there any way to turn that policy into something more?

Absolutely.

Discovering Hidden Gems

Recently a CPA referred a client to me who owned a $1.5 million term policy. Rick, the policy owner, had no desire to keep or convert the policy. At 68, his health had only changed moderately and he was in need of some extra cash now, not later (I'm sure we can all relate to that).

Fortunately, there was a buyer willing to pay $60,000 gross ($45,000 net) to Rick. He was delighted to get cash in hand for a piece of paper he was perfectly willing and already planning to throw into the garbage!

Another case referred to me was a client named June who had a large $10 million term policy with attractive convertible options. She was turning 75 and was very wealthy. Her children were even wealthier than she was, so there was truly no need for the policy on an ongoing basis. Nice problem to have, right?

She was extremely philanthropic and she was ecstatic when I told her that she would be able to donate the $250,000 she received from selling her policy to the charities of her choice.

June and her husband were so happy that they shared their story with one of their neighbors, the Tuckers, who then called us to see if we could do the same for them. They also owned some term policies they were not planning to convert. We were successful in getting the Tuckers every penny they had previously invested in their policies over a fifteen year period—and an extra $100,000 over and above that.

CPAs and other finance professionals have so many clients with term policies, which is why it's important for them to be aware of the possibilities in this area and the many doors these cash payments could open for those who need money now or for those who wish to be more philanthropic.

In short, they should become familiar with what are known as ***life settlements***. A life settlement involves selling an asset—a convertible term policy, for example—for more than the asset's cash surrender value, but less than the net death benefit. It can serve as a highly valuable source of liquidity for policy owners who would otherwise surrender a policy or allow it to lapse or for people whose life insurance needs and priorities have changed.

We will dig into the fundamentals of life settlements in the next chapter as well as where they originated, but first, I'd like to show you how life settlements are hidden gems that advisors, CPAs, lawyers, and their clients all need to know more about.

First and foremost, life settlements present some clear and tempting advantages:

- **Ease of Conversion.** The underwriting process that converts an existing convertible term policy into a permanent whole life or universal life policy (i.e. the product that will actually be sold to the third party) is a straightforward, simple procedure.
- **No Out of Pocket Expenses.** The cost of this conversion is built into a life settlement. All charges, including commissions and the initial permanent policy premium,

may be considered in the agreement with the life settlement partner, so policyholders face no out-of-pocket costs.

- **Access to Cash in Hand**. Rather than holding an expiring term life insurance policy with high annual costs and little or no asset value, policyholders will have agreed (in advance) to receive a cash settlement proportionate to the value of the newly acquired permanent life policy. Likewise, agents are eligible to receive standard commissions on the permanent policy and a predetermined commission on the life settlement conversion.

It is a process that allows everyone to feel like a winner. Here is an excellent story that illustrates just how valuable a life settlement can be in the form of cash in hand and tax benefits.

In 2003, at the age of 61, Phil had established an Irrevocable Life Insurance Trust (ILIT) with a $3 million term life insurance policy. At that time, the federal estate tax exemption was $675,000, and the size of his estate was such that the grantor of the trust needed insurance protection for heirs to pay the estate tax upon his death.

But as the federal estate tax exclusion amount increased over the years, and as his need for insurance protection decreased, Phil sought to gradually optimize the value of his insurance asset in the secondary market.

In 2008, Phil converted the $3 million term policy to a universal life policy, and then opted to sell $1 million of the face amount. In 2010, he further reduced the $2 million death benefit by selling an additional million. And finally, when the estate tax exclusion amount increased to $5.34 million in 2015, the insured sought to sell the remaining $1 million policy since the value of his estate was under the estate tax exclusion threshold, thanks to American Taxpayer Relief Act (ATRA).

TERMS TO KNOW:

American Taxpayer Relief Act (ATRA): The American Taxpayer Relief Act of 2012 made permanent most of the tax cuts enacted between 2001 and 2010 and extended other temporary tax provisions for between one and five years. As a result of the Act, the exemptions for federal estate, gift, and generation-skipping tax transfers remained at $5,000,000 (indexed for inflation), and the exemption amount remained at $5,250,000.

The $1 million policy transaction was transacted in the secondary market and obtained a life settlement of $175,000 payable to the ILIT. The cash was later distributed from the ILIT to the beneficiaries—and Phil was very pleased to witness the fulfillment of his legacy objective.

As you can see, it can be highly beneficial to advisors and clients alike to be aware of the potential value in term insurance policies. They really can be hidden treasures in your portfolio.

Offering Life Settlements to Clients

So how can more CPAs, attorneys and financial advisors discover these opportunities for their clients? Throughout the rest of this book, we will cover in more detail the history of the life settlement industry and more about the process itself. For now, for those who are interested in offering this valuable option to clients, here are the basic steps:

Step 1: K.Y.C. (Know Your Clients)

For advisors, the first step is to review your clients' portfolios, specifically looking for customers whose convertible term policies are nearing maturity (but are still within the conversion window). Chances are you have many clients who would be ideal candidates for a life settlement.

Most (though not all) term life insurance policies are convertible. It is likely that you have advised term buyers to pay the slightly higher premium so their policies can be converted in the future and to make sure that they remain insurable. The customers who heeded your advice comprise your potential market for life settlements and now is the moment that your counsel can pay off for them.

Older customers may not be aware of—or have forgotten about—the conversion option. Among your convertible term policies in force, how many are due to expire in the next few years? Particularly for a term policyholder who is elderly, sick, or not otherwise eligible for a new, permanent policy, converting that term policy might be the only option for them to keep coverage. Thus, a "term-to-perm" conversion and subsequent sale could be a true windfall for them.

Step 2: Understand Their Current Needs

In today's economy, coverage may appear less attractive than cash. The temptation is strong to simply let a policy lapse at maturity without perceiving any potential asset value at all. The only way you can know whether this is the case for your clients is to ASK them! Have them come in for a review and discover their current priorities. You may find them to be vastly different from what they once were.

Your advice can make the difference between a customer selling their policy and receiving a cash payout or simply letting the policy lapse and thus walking away from some highly lucrative alternatives. Learn your clients, re-familiarize yourself with their portfolios, and actively seek out ways to directly affect their estate.

Step 3: Guide Clients Through the Process

If you are an advisor who has decided to offer life settlements to your policyholders, you will sign a letter of intent with a settlement partner, undergo training (such as a Certified Life Settlement Consultant qualification), and you can then begin to submit applications.

A life settlement appraisal—in which you assess their eligibility for a cash conversion—requires an advisor to prepare a simple application for the client and obtain permission to access the policyholder's medical records.

Life settlement providers now provide a free annual evaluation of policies, so clients can have an understanding of policy value moving forward. If the proper conditions are met, clients now have choices—and choices are always good. They can convert and keep their policy, convert and sell their policy via a life settlement, or allow the policy to lapse.

It's up to the advisor to present all of the information to the client, to allow them to make the best decision for their unique situation.

Step 4: Present Offers to Clients

A cash life settlement offer presented to policyholders is based upon many factors and priced on a case-by-case basis. Two key issues are the policy's face value and the policyholder's estimated life expectancy. After you submit an application and your life settlement partner evaluates it, a cash settlement offer is extended to the policyholder (the seller).

The purchasing company agrees to pay the life insurance premiums for the remainder of the policyholder's life, and in return, the purchaser is paid the death benefit when the policyholder passes away.

The sudden influx of a large sum of money where there was no money can do so much for clients. Among some of the other benefits highlighted, life settlements can provide benefits such as: funds for medical expenses, value from a product that is no longer needed since children are grown, extra funds to give to charity, and the cash needed for travel or a vacation home.

Today, more than ever before, the success stories we see in the area of life settlements are the result of strong, strategic planning. Professional financial counselors and advisors should undoubtedly add life settlement alternatives as profitable options in their strategies for elderly convertible term clients.

Agents and senior consumers should also keep this in mind as they evaluate the continued need for term insurance, especially in light of the higher tax exemption amounts set by the 2012 passage of the ATRA, rendering many life insurance policies obsolete for estate tax purposes.

Are You Ready to Help the Next Generation?

Looking forward, the value of convertible term for younger market segments is clear. Agents with aging baby boomer clients, for example, should be selling convertible term policies to the younger generations as a low-cost means to prepare for a future life settlement.

Life settlements can also provide an important integrated revenue source—not to mention provide opportunities for new life insurance policy sales with fresh clients or alternatives, such as estate planning, with the same clients.

The failure to include life settlements as an option for clients may result in them potentially losing money. The idea of turning elder clients' term policies into a sizeable (or really ANY) amount of cash is intriguing for them. They thought they had this asset with no value, but suddenly they are able to donate to their favorite nonprofit, give unexpected gifts to their children, increase their estate value, and more.

These windfalls tend to generate a lot of client goodwill, and many times, also referrals to other friends and family. I feel fortunate to be able to introduce the concept of life settlements to clients and help them find dollars where there once was no value. I also feel confident that for advisors, your clients will appreciate you telling them more about this underutilized opportunity.

Can you see why this tool has so much potential? Have you considered the future of your term policies? If not, there's no time like the present!

In the next chapter, we will dive even deeper into this topic and uncover its origins in an effort to fully understand the true potential of life settlements.

Case Study

Is Your "Key Man" Retiring Soon?

Fifteen years ago, business partners Jim, age 60, and Terry, age 62, purchased two $2.5 million term policies—a type of term insurance known as a *key man policy*.

The purpose of a *key man policy* is to provide coverage in the case of the passing of a key person in a business, one whose absence could sink the company. The insurance would provide the necessary cash flow in order to buy back company stock in the event of either partner's death.

Four years ago, when Jim and Terry reached ages 75 and 77 respectively, and the term policies were nearing expiration, the company's CPA facilitated the conversion of the key man term policies to two universal life policies.

Now that the two men have both fully retired, the company decided it no longer needed to continue the life insurance policies.

Neither Jim nor Terry was interested in keeping his individual policy for estate planning purposes. The transactions were brokered in the secondary market, resulting in a $275,000 payout. The business was delighted that their CPA had recommended the conversion of the term policies and even more thrilled to receive the cash windfall for two policies they were about to simply let lapse.

SECRET 6

A BRIEF HISTORY OF LIFE SETTLEMENTS

"Yesterday is history, tomorrow is a mystery, and today is God's gift — that's why we call it the present."

-Joan Rivers, Legendary Comedian and Actress

LIFE INSURANCE HAS been a core part of the U.S. financial fabric since its early development in the 1800s. A life insurance policy is a valuable asset that provides financial benefits to loved ones, businesses, or other beneficiaries who might otherwise experience financial hardships from the early or untimely death of the insured person. It is an instrument that often provides resources that last well beyond the policyholder's lifetime.

Until recently, few were aware that the benefits of some policies can be unlocked during the policy holder's lifetime because—like any asset that is personal property—life insurance can be sold. This simple premise is the foundation for the U.S. life settlements industry.

Evolution of the Life Settlement Industry

When I first found out about this "under the radar" industry, one of my first thoughts was, how was the market created and who came up with the idea that a life insurance policy is an *asset* that can be transferred and sold?

So I started doing some digging.

Legal Roots. The legal basis for life settlements as a legitimate option for life insurance owners may be found in the 1911 *Grigsby v. Russell* decision from the U.S. Supreme Court.

The litigation was touched off because a man named John C. Burchard needed surgery. Mr. Burchard didn't have the money, so he offered to sell his surgeon, Dr. A.H. Grigsby, his life insurance policy in return for $100 and for agreeing to pay the remaining premiums. Dr. Grigsby agreed, the transaction was completed, and Mr. Burchard got his surgery.

Unfortunately, Mr. Burchard passed away just a year later. When Dr. Grigsby tried to collect the benefits, an executor of Burchard's estate (R.L. Russell) challenged him in court and won. The case eventually reached the U.S. Supreme Court, where Justice Oliver Wendell Holmes Jr. delivered the opinion of the court. The crux of Justice Holmes' opinion was this:

"So far as reasonable safety permits, it is desirable to give to life policies the ordinary characteristics of property. To deny the right to sell except to persons having such an interest is to diminish appreciably the value of the contract in the owner's hands."

Justice Holmes' decision set forth the fundamental principle upon which the life settlement industry would eventually be based: ***A life insurance policy is private property, which can be assigned at the will of the owner.***

This legal precedent has been reinforced in the decades since the *Grigsby* decision, most recently in the passage of the Health Insurance Portability and Accountability Act (HIPAA) in 1996. Signed into law by President Clinton, HIPAA allowed the owner and/or beneficiary of a life insurance policy to transfer the ownership and/or beneficial interest in that policy to a third party.

Birth of an Industry. For more than 100 years, life settlements have taken place, but the true emergence of the life settlements industry itself may be traced back to the 1980s amidst the onset of the AIDS epidemic in the U.S.

In the 1980s, AIDS sufferers faced an extremely short life expectancy. Often, these individuals owned life insurance policies they no longer needed. What they really needed was more cash for treatment and care.

It was under these circumstances that the first "viatical" settlements were created. A *viatical settlement* occurs when a terminally or chronically ill individual with less than two years life expectancy sells his or her life insurance policy to a third party for a lump sum. The third party becomes the new owner of the policy, pays the monthly premiums, and receives the full benefit when the individual expires.

As medical advancements progressed for those living with AIDS and other life-threatening illnesses, viatical settlements became less common. Even so, out of this difficult time, the life settlement industry emerged.

In 2001, the NAIC released the Viatical Settlements Model Act, which set forth guidelines for avoiding fraud and ensuring sound business practices concerning life settlements.

Around this time, many of the life settlement providers that are prominent today began purchasing policies for their investment portfolio using institutional capital. The influx of capital and interest in purchasing life insurance policies created a wonderful exit strategy for life insurance policies that were no longer needed or affordable.

A Stable, Regulated Sector. Today, the life insurance settlements and viatical settlement marketplace is heavily regulated, providing protection for all interested parties—buyers, sellers, and life insurance companies.

As of 2014, 42 states and the territory of Puerto Rico regulate life settlements, affording approximately 90 percent of the United States population protection under comprehensive life settlement laws and regulations. Of this group, 31 states have a statutorily mandated two-year waiting period before one can sell their life insurance policy from the time of issue, while ten states have five year waiting periods, and one state (Minnesota) has a four year waiting period.

Most states have provisions within their life settlement acts where one can sell their policy before the waiting period if they meet certain criteria, such as a terminal illness, divorce, retirement, and physical or mental disability affecting the owner/insured.

The market continues to grow year after year, with more capital coming into the market, creating a sellers' market. More states are getting on board with this consumer-friendly industry. There are several that now require life insurance companies to disclose the life settlement option when a policy with an insured over the age of 65 meets certain parameters, such as the policy goes into grace (policy owner misses a payment) or the policy owner requests to surrender the policy.

Today, the life settlement market has grown significantly. Unlike the 1980s, when it was geared more towards terminally ill individuals, it has evolved into a more sophisticated and regulated market where seniors who are not terminally ill can look to monetize an asset they may have always thought to be worth only the insurance it provided.

Still Flying Under the Radar

Interestingly, according to the National Association of Insurance Commissioners (NAIC), there have been only two consumer complaints reported nationwide involving life settlements since 2012. This is in stark contrast to the more than 8,000 complaints against life insurance carriers in 2014 alone for delays in paying claims.

Not only have carriers been slow in paying claims, but they have also systematically tried to make it difficult for consumers to be aware of life settlements and to implement this process.

It is easy to understand their reluctance. They currently enjoy a very high rate of lapsed policies. When an investor puts his own money into a purchase, they are generally in for the long term and need to keep that policy until it matures or they lose their entire investment.

The bottom line is that insurance companies make their money because a massive amount of all life insurance coverage lapses. In fact, some sources suggest that less than two percent of term policies ever result in a death claim. Those are some big incentives to make sure the word never gets out on life settlements.

When you break it down, a life settlement is just like any other transaction where a piece of property is sold at its present value. The third party (which could be institutional capital, life insurance companies themselves, or other buyers) retains ownership and beneficiary rights of the policy and continues paying the premiums until maturity, and in exchange pays the policy owner a substantial sum of money.

The life insurance companies don't love this because they are banking on the fact they will most likely never have to pay a death benefit on more than 98 percent of their term policies.

But policy owners see it much differently. When you think about it, what policy owner wouldn't want to receive something back after paying premiums all these years?

The entire concept makes sense for policy owners looking to exit a policy they no longer need or can afford. So why aren't more clients taking advantage of this option? The answer is simple — they don't know about it.

Coventry, a large provider in the industry, surveyed a room full of seniors and more than 85 percent of them had no idea what a life settlement was. This is not news to me. I talk with other advisors daily and most have either vaguely heard about the industry or not at all — and they have definitely never considered it for clients who want to lapse or surrender their policies.

Coventry has become a leader in establishing this concept on a more widespread basis. They realized how useful this tool could be for consumers who, without a life settlement, would have no choice but to surrender any unwanted policies to the issuing carrier (usually with surrender fees taken out of the proceeds, and far less money obtained than could be if the policy were auctioned on the open market).

Today, the opportunity is there for consumers, as well as advisors to consumers, to counsel clients and help them explore the significant advantages a life settlement can provide.

People love to hear about secrets than can benefit them, which is why we need to get the message out! It's not just individuals and their heirs who can benefit, but also nonprofits who could use life settlements as another source of fundraising.

Case Study

Was it Divine Intervention?

Mark and Shelly are both 72 years old and recently sold their business for a lot of money. Their company had two very large policies totaling $24 million of death benefits on Mark and Shelly. They decided they did not need this coverage anymore, as their children were independently wealthy—and they also had a very large estate unencumbered by estate taxes.

When we went to market, there was almost no interest in the policies. While Shelly had a prior incident with cancer, she was now cancer free, and Mark was running on his treadmill 45 minutes per day with no outward signs of ill health and a life expectancy of more than 21 years!

Most buyers are not interested in waiting that long, not to mention the fact that the ongoing premiums were well apportioned but still significant due to the size of the policies.

Notice I said there was "almost" no interest. There was one offer of $1 million retained death benefit on the $10 million policy, and a $75,000 fee for the work. That means that Mark and Shelly's heirs could pocket or donate close to $1 million dollars for something they thought had no value in the event of Mark and Shelley's deaths. The other $14 million policy would have to be maintained for a period of time before it would have any market value.

The paperwork was signed and we were awaiting the transfer, which can take up to 60 days. During the interim, the seller retains the right to cancel the deal for any reason. A few days later, I received a call from the agent who referred the case to us who tells me Mark had a stroke. *Whoa*.

We decided to have new medical reports and life expectancy reports run to see what changes had been created by this health event. The new report showed a decrease in Mark's life expectancy from more than 21 years to 13 years.

But the great news for Mark is the doctors expect a full recovery!

My partner Geoff went into full negotiating mode and secured a marvelous offer of $4 million of retained death benefit on the two policies. The total fees climbed to $500,000 for the agents handling the sale of the policies. *Amazing*!

Better yet, we felt like we had some heavenly assistance. Geoff periodically offers what we call tzedaka (or charitable giving) to some Rabbis in Israel on certain cases in the form of a percentage of our fees. We had originally set their share for this settlement at 20 percent. Because the early results were not as promising, the Rabbis stood to earn around $15,000. In the end, however, their share went up almost seven times! It was truly a winning scenario for everyone involved.

SECRET 7

MECHANICS OF LIFE SETTLEMENTS

"I would encourage you: be informed — knowledge is power."

— Matt Bevin, American politician

NOW YOU KNOW how the life settlement market came into existence and developed over the last 100 years. Knowing the history behind any new idea is essential. Why? Because the history of any person, place, or idea gives its present state more context and more meaning.

You also know that a life settlement is not a passing investment scheme or an idea that a few investors came up with to somehow rob the elderly out of their insurance policies. For qualified policyholders who have term life policies they no longer want or need, it is a rather viable and extremely attractive option!

In this chapter, we will continue our quest for education by addressing the most commonly asked questions relating to how the process works, as well as who the ideal candidates are for this valuable but underutilized market.

You can use this chapter to decide whether a life settlement is right for you, or, if you are a provider, to help your clients assess whether they are viable candidates for a life settlement.

Who are the key players?

Life settlements present an extraordinary option for financial advisers to assist their clients. The industry and the process itself is comprised of four main participants:

1. **Sellers**—the owners of policies they wish to sell. This may be an individual, trust, corporation, LLC, or not-for-profit entity.
2. **Providers**—the entities that are licensed to effectuate (put into force) a contract and purchase policies from sellers.
3. **Financing Entities/Funds**—the entities whose principal activity is to invest funds into providers to effectuate life settlement contracts.
4. **Brokers**—the entities that work for sellers, accessing the maximum value for policies in the marketplace, which is comprised of multiple providers and financing entities/funds.

What is the role of a broker?

Life settlement brokers work directly for clients or their financial professionals to produce multiple bids for policies. Choosing a broker is not a selection that should be taken lightly. Choose the right broker based on the broker's experience, his or her reputation, and his or her knowledge of this specialized industry.

Why take such care in choosing a broker? Employing an experienced life settlement broker maximizes the value of a policy, because multiple purchasers may submit competing offers. The broker is able to leverage the offers and offer the strongest options to clients.

Experienced brokers achieve the highest value for policies because their platform is comprehensive. Providers prefer to work with the most experienced and professional brokerages.

By the same token, it is also not advisable to have more than one broker fielding offers, as the submittal process to life settlement purchasers will be duplicative, creating excessive paperwork and an impression the seller is not seriously interested in a settlement through a trusted channel (but rather merely testing the waters).

Life settlement brokers must be specially licensed in states that regulate the industry. This benefits everyone, because evolving state regulations require the broker to keep abreast of new developments in order to stay licensed. Life settlements can be complex financial transactions and are generally conducted on behalf of clients by professional advisors who work with a life settlement brokerage. Financial professionals ensure they meet their fiduciary obligation by discussing a prospective settlement case with an experienced life settlement brokerage.

Is a life settlement right for me?

As we age, life seems to grow more complicated. There are more people to consider, more assets, more health complications, retirement issues, kids growing up, grandkids, the passing of friends and loved ones—and that's just the tip of the iceberg. That is why weighing one's options and looking at those options analytically is absolutely essential. Here are some reasons that an individual (or a business entity who has a policy on that individual) may be considering a life settlement:

1. Convertible term life insurance policies kept in force for beneficiaries may no longer be required.
2. Premium payments may have increased, or the policyholder's income may have diminished, rendering

the policy unaffordable. Premium payments can be eliminated by the sale of the policy or conversion to an irrevocable benefit.

3. The life settlement value may be significantly more than cash surrender value.
4. A term policy is reaching the end of the term, is convertible, and then may be settled.
5. A corporate "key man policy" is no longer needed.
6. A donation of a life insurance policy to a nonprofit organization may be gifted after it is monetized, or a nonprofit may accept a policy and complete a life settlement as the new owner.
7. Recent changes in the law concerning federal gift and estate tax may make life insurance policies purchased for estate liquidity needs unnecessary.
8. Changes in family circumstances may no longer require a policy.

If you (or your client) have a policy that relates any of these considerations, then a life settlement becomes a valid option to consider. After the door of possibility has been opened, the next step is to determine the value of the policy.

Is my policy eligible?

For a term life insurance policy to be considered, it must first be a convertible policy (i.e. be eligible for a term-to-perm conversion) that has a minimum of a $50,000 face value. In some cases, non-convertible policies are considered, but qualification will depend on the insured's life expectancy versus the remaining premium schedule.

It's also important to note that the convertible policy must fall within the *conversion period*, which is not the same thing as its term. Check the policy to be sure it is still within the conversion window as specified by the carrier.

In addition, the insured's age comes into play, as most qualifying policy owners must have a life expectancy of 15 years or less. If a policyholder is younger than 75 and still healthy (with only minor conditions such as high blood pressure and hypertension) qualification would be unlikely.

What is the value of my policy in the market?

The amount of a life settlement by definition is a number greater than the cash surrender value, and less than the face value of the policy. The specific value will be determined by multiple factors, including:

- Age and medical condition of the insured
- Type of policy
- Amount of face value
- Rating of the life insurance company
- Amount of premium necessary to keep the policy in force

When an application for a life settlement is completed, policy information and medical records are examined to evaluate arbitrage and to determine the market value for the policy. These processes are accomplished entirely by the life settlement broker, at no cost to the policyholder. No new medical exam is required.

What does the approval process look like?

The life settlement process can be completed in approximately six to eight weeks, at which point the life settlement will be distributed to the owner/insured. Here are the steps (and the approximate amount of time for each) in the process:

1. **Policy Review and Application Submission (2 to 5 days):** Submit a completed application and other required

forms for processing. The application includes personal information and a medical information release form.

2. **Data Analysis and Underwriting (4 to 6 weeks):** A life settlement broker begins a complete underwriting of the case, including medical records retrieval, policy information from life insurance carrier, and life expectancy reports.
3. **Marketplace Pricing and Bids (2 weeks)**. Life expectancy reports and medical records are sent out to all possible buyers. The more buyers, the longer this step takes.
4. **Offer Presentation (2 days).** The life settlement broker submits complete information to life settlement provider/ fund marketplace to procure the best market offer for the policy, and all offers are presented to the policy seller. Once the policy seller accepts an offer, the broker issues an offer/disclosure letter, followed by closing contracts to the policy seller.
5. **Bid Acceptance and Closing (1 day)**. Documentation and all additional requirements are completed. Funds are escrowed and change forms are submitted to the life insurance carrier.
6. **Distribution of Funds (2 to 3 weeks).** Once all documentation has been signed and returned to the carrier, changes are recorded and confirmed, and funds are released to the seller. This typical takes place two to three weeks after all closing documents have been received.

The process is both straightforward and streamlined and provides a consumer-focused approach that takes the guesswork out of a critical decision that affects the consumer's present and future.

To help ease the mind of policy owners, it is helpful to know that the life settlement sector is a highly regulated industry. As we

discussed in the previous chapter, the process is regulated by state regulations—and those regulations for providers and brokers may apply to multiple areas of a life settlement transaction, including but not limited to:

- Licensure
- Time a policy must be in force before a life settlement is permitted
- Forms and disclosures
- Commission disclosure
- Rescission periods

If you are considering a life settlement, the first step is to talk to a trusted advisor who can examine your policy, its provisions, and your potential eligibility and help you decide whether you are ready to take the next step in creating cash where there was none!

SECRET 8

WHAT IS FINANCED LIFE INSURANCE?

I think over any period of time, especially if you don't use leverage, it is difficult to continually beat the S&P 500."

–Eli Broad, American businessman, philanthropist

HOPEFULLY BY NOW, you have a better understanding of what life settlements are and how they can be an excellent alternative to letting a policy lapse or getting cash when you need it most.

In fact, I consider life settlements to be one of the greatest innovations this market has seen in many years.

One of the other great innovations in the life insurance industry over the past twenty years is the idea of using *other people's money* for the purchase of life insurance called ***intelligent leverage***.

TERMS TO KNOW

Intelligent Leverage: ***Intelligent leverage*** is a concept that utilizes banking relationships to help purchase life insurance. With intelligent leverage, the banks credit the cash surrender values of a policy towards the collateralization of the loan. This results in approximately a 60 percent discount in the cash paid by the policy owner to a life carrier compared to the cost when not utilizing financing.

This 60 percent reduction in cash flow requirements for the policy boosts the internal rate of return on the proceeds.

The obvious benefit? The client can invest the saved dollars back into his business or other preferred outside investment, rather than paying 100 percent of the premiums that would be due if the policy were not financed.

There is a caveat—it is critically important you deal with experienced professionals in this arena, as there are many moving pieces and a conservative design is paramount.

Let's talk about what that means to you.

Why Some People Hesitate

First and foremost, why does the "intelligent leverage" concept work and why should you care?

In theory, without intelligent leverage, you experience a lost opportunity every time you pay a premium in cash, when that cash can be better deployed.

This concept focuses on what your "saved" money (the money you no longer have to pay in premiums) can be invested in—such as equities or your own business and real estate—rather than trying to concentrate on creating a *positive arbitrage* between the borrowing rate and the growth rate on outside funds.

TERMS TO KNOW

Arbitrage: Arbitrage is the difference between the cost of borrowing and the net return on the capital that is saved and invested. In terms of intelligent leverage, the goal is to create a positive arbitrage, which means that you make more money in the long run by using the funds that you would have had to pay in premiums (without intelligent leverage) for other investment opportunities.

Some people are hesitant to engage in "premium financing" for fear that interest rates are not low enough to make it worthwhile.

This hesitation is like any other one in regard to the direction of interest rates. Questions like, "Should I buy the home I always wanted in a time when interest rates are moving upward?" and "Should I refinance my mortgage now or wait until rates go down?" are exceedingly common.

In short, we are always afraid we'll make the decision and sign on the dotted line, and the next day, rates will plummet.

Adding to this unknown is the question many high-net-worth clients are left asking: "Should I borrow money to pay life insurance premiums during an increasing interest rate environment or should I just pay the premiums from my own capital?"

Questions like these typically result in procrastination, or worse yet, indecision resulting from an unclear understanding as to why interest rates move in the first place and why interest rate *increases* may actually be in the borrower's *favor*.

Borrowing money to pay life insurance premiums is certainly not for everyone. Debt in and of itself has a controlling quality that, if left unmonitored, could impose a hardship on the borrower.

On the other hand, for some high-net-worth individuals, borrowing money can leverage capital in seeking that positive arbitrage I mentioned a few paragraphs ago. This arbitrage represents a capital growth opportunity—and growth opportunities utilize *time* to realize a gain. That is precisely why interest rate increases play less of a role than many believe. Why? Because this growth opportunity has a longer time horizon and over time, short-term debt interest rate increases are in essence "cancelled out" by subsequent decreases.

Premium financing is in many ways just like financing any other asset, such as a house. With that in mind, let me ask you this: When debt interest rates increase, does a real estate investor now pay cash for his or her property?

Typically, no—so perhaps debt interest rate increases are not as much of a negative factor as we initially thought.

With all that has been said about investing and the relationship between interest rate increases and growth, remember that two steps forward and one step back still represents a net forward movement.

Why Are the Rates Always Changing?

Before we continue, let's get back to the basics and make sure we understand why interest rates move in the first place.

In our capitalistic economy, the cost of borrowing controls the scope of economic expansion. Although economic growth is a goal, rapid, unchecked economic expansion may create an inflationary environment, which increases the costs of goods and services.

As a result, the Federal Reserve may increase interest rates to "slow things down" in the economy. The Federal Reserve determines interest rates that instill balance in the economy without sacrificing sustained growth.

Here is where balance comes into play. Although inflation is a fear, an abrupt increase in short term rates may stall the economy, and too little of a change may continue to fuel inflation.

The converse is also true. The Federal Reserve may decrease rates to give the economy that needed "shot in the arm" to promote economic growth. The economic ebb and flow creates cyclical movements in interest rates. That is why it's important to remember the adage—what goes up will come back down (over and over again).

So, what does this have to do with life insurance premium financing? Remember, the key word is *growth*. High-net-worth individuals and business owners seek growth in their investments. They recognize calculated risks and utilize longer time horizons to mitigate these risks.

Because interest rate movement is cyclical and directly tied to the economy, and increases in interest rates are imposed to promote economic balance, an increase in rates realistically protects long-term investment growth and should be viewed favorably.

High-net-worth individuals who understand the benefits of life insurance understand what it really is—an investment of their longest-term capital (capital that will be passed to future generations).

Thus, high-net-worth clients borrow money to pay life insurance premiums because the growth of their capital is important. When a client utilizes premium financing, his drain on short-term capital is lessened significantly, thereby maintaining his ability to simultaneously maximize the future value of these funds.

Avoiding That "What If" Feeling

A properly designed premium financing strategy recognizes three types of interest rates (and economic movement governs all three of them). Although all three rates do not move simultaneously with each other, they do move in similar directions.

1. The first is the ***debt interest rate***, which represents a cost when utilizing a premium-financing program. As previously discussed, debt interest rates are dynamic (always changing). They are the tools the Federal Reserve use to maintain balance in the economy.
2. The second interest rate that comprises a part of a premium financing arrangement is the ***growth rate on capital outside the life insurance policy***.

These first two interest rates are the ones that are used to determine the arbitrage growth opportunity (i.e. making more money using saved premiums to invest in other opportunities). The hope is that the growth rate on capital outside the life insurance policy is more than the debt interest rate. If it is, then this creates the positive arbitrage you seek.

3. The third interest rate is the ***crediting rate on the cash values within the life insurance policy***. Although the issuing insurance company typically declares the policy-crediting rate, it is generally tied to new issue AAA bond coupon rates, which reflect the current interest rate environment (that, of course, is determined by the Federal Reserve).

This third interest rate is of vital importance, because it is one of the factors used in determining the life insurance premium to be financed.

They all work together in such a way that helps make that one number that seems to plague everyone — the debt interest rate — take a backseat over the life of long-term investments such as financed life insurance.

The bottom line is this: Once you miss an opportunity, whether stalled by procrastination or a lack of information about interest rates over long time horizons, it cannot be recouped. Far too often, high-net-worth clients make the incorrect assumption that a premium-financed program is too sensitive to the debt interest rate and offers no economic benefit to the borrower when interest rates begin to rise.

In reality, however, a properly designed premium-financing program is not *interest rate* motivated, but *value* motivated.

Cyclical moves in debt interest rates present investment opportunities. These opportunities are best captured using capital that may otherwise be allocated to pay life insurance premiums.

For those individuals who understand leverage and time value growth, a premium finance program can make financial sense.

It is advantageous to control the death benefit through the payment of debt interest and take advantage of future value of these opportunities—and never have to wonder "what if" you'd had those premium monies available for other now-lost investment opportunities.

Financed Life Insurance and Estate Planning

Life insurance premium financing is not just a way to avoid lost investment opportunities. It is also is a valuable strategy that can enhance an estate plan when utilized correctly.

Like all other goals in life, everyone's estate plan goals are unique. One high-net-worth client's plan can look completely different from the next plan with a similarly valued estate—because it all depends on one's ultimate wealth transfer objectives.

A well-thought-out estate plan can touch future generations with succession capital, benefit their private foundation, or maintain a family legacy of assets passed on from generations.

Some view estate planning as a way to ensure that the ultimate beneficiaries—children or grandchildren, for example—are the ones who actually receive the rewards. Others may view estate planning as a way of protecting assets from creditors.

Regardless of their general objectives, one thing is certain: most high-net-worth individuals wish to transfer as much of their taxable estate to beneficiaries in the most cost efficient way possible.

In order to accomplish this, *valuation transfer techniques* may play a role in the estate plan design when valuing the assets to be transferred. These techniques allow money in the "left pocket" to be valued lower when placed in the "right pocket" for gift and estate tax purposes.

For example, one shrewd valuation transfer technique is the gifting of assets to an *Irrevocable Grantor Trust* on a discounted basis without exceeding the maximum annual tax-free gift amount.

Now, here's where financed life insurance comes into play. To expand the benefits of this type of gift, the Irrevocable Grantor Trust can purchase a *Joint Survivorship life insurance policy* and further leverage its purchase by using the premium financing strategy.

To explain how this works, let's meet some hypothetical clients, Mr. and Mrs. Smith. The couple has a net worth of approximately $25,000,000, most of which is invested in developed commercial and residential real estate. The income from their real estate ventures average four percent annually. However, the growth rate of their properties average approximately eight percent annually.

Their estate-planning attorney suggested that they create a Family Limited Partnership (FLP) that owns and manages the properties. He also suggested using an Irrevocable Grantor Trust (ILIT) to purchase a Joint Survivorship life insurance policy in the amount of $10,000,000.

The annual premium for this policy is $110,000, payable every year, and it will be gifted to the ILIT. With three children and two grandchildren, their annual tax-free gift amount is a combined total of $130,000, which should be sufficient to purchase the life insurance policy.

This estate plan strategy encompasses several benefits:

1. First, the annual tax-free gift is expanded to include "Crummey" provisions. A ***Crummey power*** is a provision contained in certain irrevocable trusts that permits specified trust beneficiaries to withdraw gifts you make to the trust for a limited period of time. The provision allows gifts to the trust to qualify for the federal annual gift tax exclusion.
2. Second, the systematic gifting of a portion of a FLP interest may be subject to various tax valuation discounts.
3. Lastly, the ILIT's purchase of a $10,000,000 survivorship life insurance policy will provide estate liquidity in the event of death.

That all sounds good—but here is the dilemma. Because the annual premium for the life insurance policy is $110,000, there is not much more that can be gifted in regard to FLP interest because any annual gift in excess of $130,000 (combined tax-free Crummey gift) may be subject to a present value gift tax.

So how do we make this estate planning strategy more efficient by maximizing the transfer of taxable growth assets to the ILIT and providing estate liquidity through the purchase of life insurance?

The answer is quite simple and very creative—we leverage the purchase of life insurance by incorporating the life insurance premium financing strategy.

By doing so, the out-of-pocket cash flow required to purchase the life insurance is reduced to a debt interest payment. This allows more of the annual gift to include discounted FLP growth assets. Let's look at the numbers:

> The life insurance premium will be redesigned to an annual premium of $454,038, payable for five years. A lender will lend these premiums to the ILIT at an initial borrowing rate of 5.75 percent.

Additionally, a "return of premium" rider will be added to the coverage. This rider effectively pays the cumulative premium loans back to the lender upon the death of the survivor without jeopardizing the net $10,000,000 death benefit need.

By utilizing the life insurance premium finance strategy, the Smiths were able to effectively transfer growth assets out of their taxable estate at a discounted rate. This further leveraged the ILIT by having the trustee purchase a Joint Survivorship policy that will be used to buy assets from the taxable estate in the event of the death of the surviving insured.

Additionally, remember that the family limited partnership asset (a.k.a. the property) being transferred also provides an income stream to the trust via the real estate holdings. At some point in time, the annual income from within the ILIT may be sufficient to pay the annual debt interest resulting from the CMS premium finance strategy. In fact, funding an ILIT with income-producing assets can provide the trustee with the money needed to pay the policy premiums.

So what is the bottom line? The Smiths gain the ability to:

- Reduce the taxable estate by transferring growth assets to the ILIT using a systematic gifting program.
- Leverage these annual gifts by utilizing "lack of marketability" and "minority share" tax discounts.

- Maximize the annual tax-free gift by using Crummey provisions.
- Provide estate liquidity resulting from the purchase of a Joint Survivorship life insurance policy.
- Effectively leverage the life insurance purchase by utilizing the life insurance premium strategy.

That is quite an impressive list of advantages from both a tax perspective and cash flow perspective. That is why premium financing should always be explored as an option for purchasing life insurance through an ILIT.

How Premium Financing Can Go Wrong (And How to Fix It)

Financed life insurance is not only a good option to consider in your estate plan, but it is also a handy tool that can come to the rescue in an unfortunate situation.

An attorney recently contacted me on behalf of his clients, the Millers, who were having a performance problem with some life insurance contracts they purchased through premium financing from a third party bank.

They had chosen to finance their life insurance in order to retain the significant amount of capital they would have had to otherwise pay into the policy. They knew that if the policy performed favorably compared to the loan interest rate, this premium financing offered them the opportunity to potentially earn a higher level of interest from other investments.

However, such deals are not without their potential pitfalls and can result in loss when one of several factors is present:

- If the loan interest rate is too high compared to the credited rate of investment within the policy, this deal will not work. In other words, you will not be able to create a positive arbitrage.
- If the design of the product is not conservative in nature and premiums are frontloaded, problems can occur.
- If the design does not project for robust cash values at age 100, there is no margin for error.

TERMS TO KNOW:

Frontloading Premiums: This is a practice where the owner overfunds the policy at inception, which allows more cash to grow the cash values within the policy, because the initial expenses will be less of a burden (on the policy performance) due to much higher initial premiums. Note, in most cases premiums should be paid up to (but not exceed) Modified Endowment Contract (MEC) limits. If MEC limits are exceeded negative tax consequences can accrue if financing is involved or any loans from the policy are taken."

Sadly, many agents offer this type of program without enough thought to these contingencies.

The Millers' case had several problematic components. First, the loan was established using a fixed rate of interest that was established in 2008 (when rates were rising). Because of the state of the market at the time, they thought locking in a seven percent fixed rate made sense. In reality, however, it made *no* sense from inception, as you cannot count on crediting higher than 7.5 percent on an annual basis.

The second problem was the very design of the policies. The agents tried to make the deal appear more attractive by underfunding the policies; this put the policies, if left to be funded according to their current design, to lapse at age 100 or earlier.

Two other competitors had tried to come up with a solution for the Millers, but so far, no one had identified any solutions that solved their many problems.

Then we stepped in. Our team figured how to greatly reduce the borrowing rate to below three percent, and we redesigned a new product to provide the robust cash values necessary at age 100 and beyond, all while keeping the out-of-pocket outlay for the interest at an affordable cost for the Millers.

In the end, the Millers were able to successfully purchase even more insurance than they had under the prior program and were delighted with the outcome. Having the experience to design properly and the banking connections to obtain the most competitive rates saved this case.

What happened to the Millers illustrates perfectly the potential debt interest rate problem that many considering premium financing fear. However, as we have now discussed, there is no need to fear interest rates when the policy is designed properly.

If you are interested in the potential benefits of financed life insurance, talk to a trusted advisor who can help you weigh the pros and cons according to your unique estate plan goals.

In the next chapter, we will discuss how these two great tools — both life settlements and financed life insurance — can help when it comes to giving back to charitable organizations and doing your part to help change the world.

SECRET 9

HOW CHARITIES AND THEIR DONORS CAN BENEFIT

"Effective philanthropy requires a lot of time and creativity — the same kind of focus and skills that building a business requires."

— Bill Gates, Businessman and Mega Philanthropist

OUR PASSIONS IN life, perhaps more than anything else, are often the things that determine our paths—and the paths of our estates.

For me, philanthropy has always been one of my driving passions. For many years, I have sought out opportunities to give back to my favorite causes and change lives through giving.

That is why I'm so excited to share with you how utilizing insurance policy reviews and life settlements can help you accomplish this!

Most people realize the significant benefits of participating in some form of philanthropy and there are certainly many reasons to give back—including tax benefits and the sense that we are giving to something greater than ourselves.

What I find particularly interesting is the idea of combining giving back with shrewd estate planning.

In fact, isn't it interesting that the quote from Bill Gates—one of the greatest philanthropists of our era and perhaps of all time—includes *innovation*, *creativity*, and an *entrepreneurial mindset* in its message about philanthropy?

What better way to embrace these principles than to get the message of what life settlements and policy changes can provide for nonprofit donors of in terms of providing tangible benefits such as cash, cash savings, and tax savings?

We are talking about opportunities of which most donors and their advisors are not even aware.

How happy would an individual be to discover that a life insurance policy that he was about to let lapse because he no longer needed it could provide cash both for his needs and his favorite charity's needs?

I can tell you from experience—that is one happy discovery.

I recently presented to an audience of fundraisers (that included their major gifts officers) from a national nonprofit in the Sacramento area. Despite the fact that the ideas I presented ought to be used in every nonprofit around the world, they were amazed at these "never-before-heard" opportunities hiding just under the surface of their donors' life insurance policies.

These fundraising goldmines should not be kept secret!

So the question becomes how to get the message out.

For me, the greatest opportunity is getting to speak to an organization's entire fundraising staff and other members of their organization (employees and even volunteer fundraisers) and present to them the many opportunities they never knew they had in the areas of fundraising.

This part of my job resonates with me more than any other area, since one of my greatest passions is to increase philanthropy through innovation and to share a powerful message that benefits so many.

Opening Up the Floodgate of Opportunity

So what do I share with these nonprofits during my special speaking engagements? There is a plethora of information, but first, I help them understand how life settlements can provide funds for charity.

Rather than trying to donate an existing policy to a nonprofit (a process that creates some issues for the charity and extra unnecessary costs for the donor), I help them compare that process to the life settlement process.

Charities are leery about accepting a life insurance policy from a donor unless it is fully endowed. This is understandable, as the majority of charities do not have the experience or the financial expertise to understand all the nuances of a life policy.

They are concerned they may be getting into something that will ultimately cost them money they don't have to maintain the policy until the donor's death. In addition, if a donor wishes to donate an existing policy to a nonprofit, it will require an expert appraisal if the gift is $5,000 or more.

The life settlement process, where you have an open market bidding for the policy, will invariably bring *more value* than the appraisal, and thus the need for an appraisal is eliminated altogether.

That's what I call a win-win! Donating to a nonprofit through a life settlement really can make considerable sense for everyone involved.

For example, let's say that a life settlement is going to create a taxable event for the seller. By donating that portion of the proceeds, the seller has created cash for himself and his family and helped his favorite cause, all while eliminating a tax he would have had to pay.

I saw this unfold for one of my wealthy clients, Barbara, who was about to allow a convertible term policy to lapse because she no longer needed it. Rather than allowing the policy to lapse, we sold it for $250,000, which Barbara then donated to her favorite foundation.

Wow!

The end results were a tax deduction *and* funds for her favorite cause — all from a piece of paper that was going into the garbage.

This is the kind of message that can create a disruptive effect for entrepreneurial nonprofit organizations — those charities who are willing to take the time to understand this concept and take advantage of it.

Financed Premiums Can Do WHAT??

Let's discuss another problem many major gift officers share with me. Nonprofits love gifts that have the ability to endow activities in the future. They also see the value in ***split interest gifts***, which can save donors immediate tax dollars on appreciated property, provide income for the donors during their lifetime, and ultimately leave the assets placed into the charitable remainder trust for the use and ownership by the organization receiving the gift.

TERMS TO KNOW:

Split Interest Charitable Gift: If you want to make a substantial charitable gift, split-interest charitable gifting allows you to make the gift today, while retaining an interest in the property and receiving both immediate and longer-term tax benefits. With a split-interest charitable gift, the asset is split into two parts: 1) a stream of income produced by the asset (income interest) and the principal remaining after the income interest is paid (remainder interest).

Of course, the stumbling block comes when the rest of the family (who might have been in line to receive these assets that are now eventually going to charity) discovers they will be left without these assets.

Additionally, many advisors may suggest that donors purchase life insurance with the "tax savings" generated by split interest gifts. But many times, the donors and their heirs don't want to spend all their "savings" to purchase life insurance. This disagreement among family members often derails what could have been some significant gifts.

This is where the intelligent leverage process can come to the rescue! Instead of spending dollars for the coverage, clients can spend approximately 60 percent less cash flow to accomplish the same insurance goals. This reduction in cash flow can be very helpful for facilitating the gifts!

This idea ties together my overarching desire to increase philanthropy efforts in any way I can. I believe it is exactly this type of outside-the-box thinking, such as the use of leveraging through premium financing to generate tax savings and "freed" cash, that produces highly satisfactory results for everyone—the donors, their heirs, and their favorite nonprofits.

Higher Learning's Most (Shockingly) Untapped Resources

Universities have a unique asset among nonprofits. It is an asset that is bound together by three things—loyalty, pride, and fellowship. The collective value of this asset is larger than the state's economy and can only be described in one word:

ALUMNI.

Today's alumni recognize their education is their gateway to success. It's not just their education they value; they also highly prize the long-lasting fraternal relationships they made with their classmates and colleagues.

In today's fast-paced economy, higher learning institutions are seeking ways to provide maximum value to current and future students and provide a memorable learning experience—enough to hopefully support alumni participation.

However, there is a cost associated with this quest. To address this cost, universities are creating endowment programs that will provide the additional funds necessary to perpetuate a productive future for their institution.

Alumni donations are essential in funding this endowment.

Graduates are passionate about their alma mater, their education, and its successful application in their endeavors, so they give back to their school in order to secure its legacy and ensure that it can continue to shape our country's future leaders.

Even so, it is essential to understand that not all alumni donations are the same. Some donations can be in the form of tangible property and donated today, while others may be received by bequest.

However, if you ask any university fundraiser, he or she will tell you that the most valuable donation to a university is CASH — now.

Because donations tend to be irregular, the challenge is to seek a more consistent cash donation flow, and then place this capital in programs that are risk adverse and will provide an increased value in the future.

One way to address the first challenge (help cash inflow become more steady) is to tap into a school's existing alumni group in order to present a unique opportunity that will enhance cash donations and provide a future benefit to the university by a margin of ten to one.

Here is how it works:

First, I have found that group alumni functions (dinners, weekend gatherings, etc.) work well because they allow open discussion among alumni.

Once you have their attention and they are gathered together, how can you make the most of this opportunity? And how can alumni give more cash without giving away a single dime out of pocket?

The answer has been available for centuries — it is called life insurance.

To illustrate the power of cash for a university and how it grows over time through the clever utilization of life insurance, let's create a sample alumni group. Here are our assumptions:

- There are 18 total alumni between the ages of 45 and 85. There are two alumni (one man and one woman) who are 45, two who are 50, two who are 55, and so on in five years increments, up to 85.
- Let's further assume each participant donates $100,000 per year for five years.

- Using these donations, the university purchases a $2 million permanent life insurance policy on the lives of each participant, with premiums paid over ten years.

The future value of this strategy over 40 years is quite impressive. Based on each participant's individual mortality, a total of $36 million of tax-free death benefit will be paid to the university.

Added to this figure is $9 million of cumulative donations, with a projected growth rate of three percent. It's also important to note that because they purchased permanent life insurance policies, the university can offset current expenditures by redirecting capital to other opportunities by accessing policy cash surrender values. (However, taking too much too soon from the policy may not allow the strategy to mature as projected.)

Year	**Annual Premium**	**$100,000 donation per alumnus**	Cumulative Donation	EOY without Life Insurance	EOY with Life Insurance
1	**-1,425,724**	**1,800,000**	1,800,000	1,854,000	385,504
2	**-1,425,706**	**1,800,000**	3,600,000	3,763,620	782,592
3	**-1,425,706**	**1,800,000**	5,400,000	5,730,529	1,191,593
4	**-1,425,706**	**1,800,000**	7,200,000	7,756,444	1,612,863
5	**-1,425,706**	**1,800,000**	9,000,000	9,843,138	2,046,772
6	**-1,425,707**	**0**	9,000,000	10,138,432	2,699,697
7	**-1,248,387**	**0**	9,000,000	10,442,585	1,494,849
8	**-1,248,388**	**0**	9,000,000	10,755,862	2,313,855
9	**-1,083,357**	**0**	9,000,000	11,078,538	1,267,413
10	**-940,714**	**0**	9,000,000	11,410,894	336,500
15	**0**	**0**	9,000,000	13,228,354	9,141,462
20	**0**	**0**	9,000,000	15,335,288	14,968,368
25	**0**	**0**	9,000,000	17,777,802	26,042,006
30	**0**	**0**	9,000,000	20,609,345	34,371,623
35	**0**	**0**	9,000,000	23,891,879	44,153,385
40	**0**	**0**	9,000,000	27,697,236	**53,436,892**
		9,000,000			

Difference between EOY totals WITH and WITHOUT insurance:
$53,436,892 — $27,697,236 = $25,439,656
$25,439,656 difference + $36,000,000 tax-free death benefit
= $61,439,656
(all because of life insurance)

The above cash flow is just one example of how to structure this strategy. Donation amounts and duration can be changed to suit the individual's financial ability to donate by taking advantage of the premium flexibility inherent to a universal life policy to maximize the strategy's effectiveness.

What are the benefits to the university?

With this use of cash, the university has created a strategy that will significantly enhance its endowment and provide a more regular cash flow to the university. In addition to these primary benefits, they will also enjoy enhanced alumni participation. Not to mention every dollar they receive will multiply! They will no longer just be using cash to pay expenses and "keep the lights on." Instead, they can fully fund their future!

A donation really does go a long way when it is enhanced by life insurance.

What are the benefits to the alumni?

For the alumni, every cash donation may be subject to a current income tax deduction in the year the donation was made. They can also feel the confidence, pride, and peace of mind that can only come from giving to an organization that knows exactly how to get the most benefit out every dollar.

Today's sensitive, ever-changing economy represents challenges to universities that are seeking ways to enhance their endowment and provide maximum benefits to current and future students. Creating a strategy that encourages alumni participation in a program that will benefit the university represents a situation in which everyone truly does win.

As you can see, there are many ways insurance policies can be utilized to fulfill one's charitable objectives. This is a discussion that can benefit both clients and their favorite nonprofits. It is a discussion that I truly hope will become embraced and recognized for the good it can do for all parties—the alumni and their alma mater, as well as their most beloved charities.

I'm currently working with a number of charities, as well as some of the top-level financing entities and preeminent tax and charitable planning attorneys in the country, to create a compliant, fantastic result for all concerned.

I get more and more excited every day for the opportunities that exist when utilizing financed life and other insurance strategies, all to help people stop *dreaming* about making a difference ONE DAY and starting *doing* it TODAY!

"True philanthropy requires a disruptive mindset, innovative thinking, and a philosophy driven by entrepreneurial insights and creative opportunities."

-Naveen Jain, Indian Businessman and Entrepreneur

SECRET 10

LIFE SETTLEMENTS TO THE (SPLIT DOLLAR) RESCUE

"The biggest handicap in research is an ability to think outside the box. The handicap is encumbered by all the conventional wisdom in a given field."

— Aubrey de Grey, English author

YOU KNOW HOW nice it feels when your company gives you paid vacations, bonuses, and other cushy benefits? The purpose of this chapter is to discuss another "benefit" that businesses can offer to its key executives and owners in the form of life insurance and how life settlements may play a role in getting the most out of those policies.

Even more importantly, we are going to discuss how to avoid the common pitfalls that befall so many executives in dealing with this type of product. When executives, business, owners, and their advisors are not up to date with regulations and are unaware of the ways to get the most out of their investment products, they are missing out on solutions that could cost them and their business six, even seven figures!

What am I talking about? I'm talking about *split dollar insurance*, which is a method of paying for a cash value policy that has been used for years by successful business owners. Split dollar insurance allows executives and owners to buy life insurance using employer funds. If the insured passes away or leaves the company, the business is reimbursed for its premium payments from the policy proceeds.

The reason it's called "split dollar" is because the owner/employee and employer agree to share or "split" the costs and benefits of a life insurance policy. Specifically, the parties join together to purchase an insurance policy on the life of the employee and agree, in writing, to split the cost of the insurance premiums, as well as the policy's death proceeds, cash value, and other benefits. The insured and the business may use any cash value policy such as whole life, universal life, and survivorship.

It sounds nice, right?

Unfortunately, there are some pitfalls that can arise from improper planning or from circumstances beyond the insured's control. When problems occur, it is critically important to have an arsenal of alternative solutions at your disposal, as the dollars involved in these types of cases are often large.

Watch out for Soaring Regulations

First of all, why is split dollar insurance so popular? Many business owners have told me that by having the business "foot the bill" for coverage, it makes them feel like they are not paying out of their own pocket—or at least not having to shoulder the responsibility of premium payments alone.

However, it's not quite that simple. What is really happening is the company lends the money to the owner's life insurance trust at a low cost of interest in return for being paid back for the loan (plus interest) at the death of the owner or his termination at the company. The premiums paid by the company are treated as a loan to the employee and must therefore have an adequate interest rate based on the applicable federal rate (AFR). However, the rate can be below current market interest rates.

This is an overly simplified explanation of the process, but it provides you with what you need to know to move into a brief discussion of some of the major problems that have arisen over the last 15 years in regard to these policies.

As of 2003, split dollar policies have changed dramatically per several IRS notices of proposed regulations and they continue to undergo changes. The changes were made for the same reasons the IRS usually makes regulations changes—they were prompted by the government's concern that business owners were getting too many tax advantages.

Unfortunately, according to a survey conducted by *Wealth Management*, in the first few years following these changes, more than 85 percent of advisors with split-dollar clients had *NOT* alerted their clients of the new regulations.[2]

The reasons they had not alerted their clients may or may not surprise you. First, only around 18 percent of the advisors with split-dollar clients said they fully understood the new split-dollar regulations. To make matters more alarming, only 13 percent of the advisors indicated that they knew how to fix the problems made by the regulations for their clients!

Oh dear.

2 http://www.wealthmanagement.com/news/paralyzed-over-split-dollar

Ultimately, the take-away is this: The design of these policies is critical and *anything* but "plug and play." For starters, a policy owner should always have other exit strategies besides simply dying. That is way too restrictive! In fact, the more alternatives you have in life insurance and wealth products, the better.

One of the most commonly used split dollar rescue plans (and often the only one utilized by advisors) is building up cash reserves in other accounts so that the loan can be retired other than through death.

When that works—great. Sometimes, however, that is not possible. I'd like to share a case that perfectly demonstrates such an instance, as well as share what we did to rescue what could have been a very costly unraveling of a split dollar arrangement.

Two Brothers, One Big Problem

Two brothers own a large manufacturing company and had previously purchased two $7 million policies, one for each of them, through the split dollar method. These brothers, Dale and Craig, are now in their mid-seventies and early eighties. The policies in question had existing loans of approximately $4 million from the company to the owner's trusts. The policies' annual premiums were $400,000 collectively.

As everyone knows, business has its ups and downs. Unfortunately, the company had experienced several years of losses and their bank was concerned about the amount of money being lent from the company for the owners' benefit. The bank was so concerned that they insisted the company stop lending the money to fund the policies.

This could have created a disastrous result. If the policies were to lapse for nonpayment of premiums, the amount of debt owed by the owners back to the company would have been considered forgiveness of debt if they could not pay the company back. This forgiveness of debt would have resulted in an immediate ordinary income tax of close to $2 million to the owners.

Not only that, the company would then have to write off $4 million of loans, which would have greatly impacted their balance sheet and made it difficult to find a new lender to help finance their business. On top of that, there would no longer be any funds from the death benefit proceeds to benefit Dale and Craig's families.

Quite a dilemma!

Enter life settlements, which are able to obtain cash, a retained death benefit, or a combination of both. In previous chapters, we've discussed how the cash settlement option works. This other option, known as a ***retained death benefit contract***, obligates the buyer to pay all future premiums on the underlying insurance contract in return for a *percentage* of the ultimate death benefit paid on the insurance death. This form of sale can come in very handy, especially when faced with a split dollar insurance problem like the one in this case, where the underlying policy is in danger of lapsing due to the inability of the brothers' company to fund the premiums.

We found a buyer for each policy that would pay all the ongoing premiums for each. This arrangement satisfied the bank since the company would no longer be lending money on these policies and it kept the policies from lapsing.

Because those contracts did not terminate, they did not have to deal with any forgiveness of debt issues. That means Dale and Craig's company saved $2 million in ordinary income taxes. The company was also able to retain a positive balance sheet, as they could be certain that their debt would be repaid. The frosting on the cake was the fact that we were able to get a little cash for the owners out of the policies before they were sold. Needless to say, the bank was happy, the company was happy, and Dale and Craig were delighted.

The Split Dollar Action Plan

The large number of legal changes and new mathematical formulas simply must be considered when reviewing split dollar contracts and their performance. Remember, it's all about filling up your arsenal with attractive alternative solutions. One such win-win solution is the ability to maintain the underlying contracts through the use of the retained death benefit formula we just discussed.

If you or one of your clients (or their business) has a split-dollar policy, the best way to head off any potential liability is to be proactive. Here are the simple steps to assess where you are today:

1. Do a Review

As a part of a healthy financial planning process, have the client come in for a review to assess his current goals and agenda (they are always subject to change), current estate plan, changes to his financial situation (which of course affects ability to pay premiums), and the policy's existing performance.

2. Discuss Policy Changes

Next, it's time to get specific. After highlighting the mechanics of the split-dollar arrangement, it's important to identify all potential solutions and discuss the pros and cons of each as they relate to the client's unique situation.

3. Decide on an Action Plan

Next, you will come to an agreement on the most advantageous course of action—ideally the solution that most fully mitigates any potential losses or liabilities—and identify next steps, as well as a realistic timeline.

4. Monitor Progress

This is simply a product that you cannot set and forget. Since changes in the split-dollar environment are ongoing, the policy must continue to be monitored for performance.

Split dollar policies need especially careful scrutiny due to the large dollar amounts involved and the complexity of the transactions from a tax compliance perspective. Find an expert who can help not only with understanding what your situation is and what the potential problems are, but also one that can help come up with creative solutions such as the use of various life settlement options to keep your estate and your business intact.

“You need to think outside the box. You need to think differently if you want to sustain what, for me is my peak performance: the very best that I can achieve as an athlete every day.”

— Tom Brady, NFL Quarterback and Super Bowl M.V.P.

SECRET 11

WHY TRUSTEES SHOULD BE CONCERNED

"Trust has to be earned, and should come only after the passage of time."

-Arthur Ashe, Professional Tennis Player

WE'VE COVERED SOME important and valuable information so far. So what does all of this have to do with you? If you are the owner of a life insurance policy or have been named the trustee of a trust in which life insurance is an asset, then the answer is …

A LOT.

Many people name their children as trustees and chances are, whether you are a client or a professional in this industry, you have seen this time and time again. In other instances, the grantor (the head of the estate and the insured in most cases) assigns two or more adult children to act together as trustee. Other times, a corporate trustee (bank or trust company) is named. Sometimes it is a combination of the two.

This chapter will clarify the important obligations, responsibilities, and liabilities that life insurance trustees assume when they agree to become the trustee of an irrevocable life insurance trust (ILIT).

Before we continue, it's important to note that trustees and beneficiaries are not the same. The *beneficiaries* are the people or organizations who will receive the trust assets after the grantor dies, while the *trustee* is simply the "manager" of the assets in the trust (including all life insurance policies).

Many grantors choose to be their own trustee so that they can manage their own affairs for as long as possible. Other times, married couples will be co-trustees, so that when one dies or becomes incapacitated, the other spouse can handle their finances with no other actions or steps required, including court interference.

Whoever that trustee may be, one thing is certain: if you are named a trustee but have little knowledge of estate planning, insurance, and the investment climate (or do not share a close, trusted relationship with someone who does), costly mistakes will undoubtedly be made. These mistakes can cost the estate, in the form of loss of value, and the trustee, in the form of potentially costly litigation and more.

Increasing Legal Burdens on Trustees

For the purposes of this book, think of trustees as those who have a duty to monitor the life insurance contracts held within the trust, a duty to investigate the suitability of those contracts, and a duty to maximize benefits with reasonable levels of risk.

This role of trustee is one that should not be taken lightly. There are well-defined responsibilities and obligations, as well as a standard of care that is rigorous, and described in detail in the Uniform Prudent Investor Act.

There have been several cases that illustrate the issues that can arise—issues that make it essential to choose your trustee wisely (and to choose to take on the role of trustee only after careful consideration). One such case is *Cochran vs. KeyBank*. Here is an excerpt from an article published in *Financial Planning* that sums up the issues for the corporate trustee, KeyBank:

> *"The recent case in Indiana of Stuart Cochran Irrevocable Trust vs. KeyBank highlights the risk that trustees face when dealing with prudent management of trust-owned life insurance. In that case, the trustee was sued by the beneficiaries of an irrevocable life insurance trust (ILIT) for alleged violation of Indiana's Uniform Prudent Investor Act, as well as breach of trust."*

The facts of the case indicated that the policies held by the trust were risky for several factors, and in order to get guarantees of future coverage at the same costs, the death benefits had been reduced from $10 million to less than $5 million. Unfortunately, shortly after the switch was made, the insured died and his beneficiaries received much less than they had anticipated. It seemed that the trustee had not sufficiently explored of all the options on the table.

KeyBank was extremely fortunate that they had engaged an outside expert to review the portfolio and the changes being suggested, and in the end, they narrowly escaped what could have been a costly settlement. Many trustees are not so lucky.

One prominent practitioner who has managed more than 20,000 policies, along with their trusts on a fee-only basis, shared something that should make anyone considering a trustee designation stop and think it over. He told me that although very few cases of "trustee malfeasance" brought by ILIT owners and beneficiaries have actually gone to court, hundreds of cases have been and are being settled in favor of owners and beneficiaries. They are being settled because the trustees are quite simply terrified of what will happen to them in court!

Another more recent case whose ruling has tremendous consequences for trustees is *Rafert vs. Meyer*. In its ruling, the Nebraska Supreme Court held that the following duties are non-waiverable by a trustee:

1. The trustee must keep beneficiaries informed about the status of all life insurance policies held in the trust.
2. It is the trustee's duty to act in good faith and the best interests of the beneficiaries.

These duties, or standards of care, are understandable—but they should also cause many potential or would-be trustees to pause before accepting such a heavy responsibility. What if a trustee's actions and decisions are not deemed to be in the "best interests" of the beneficiaries?

What then? And who pays the price?

The bottom line is that it is critical that trustees review life insurance policies on a frequent basis. However, this is a major problem. Why? Because according to a 2014 Life Health Pro report, an estimated 90 percent of all trustees are non-professional trustees!

If they take on that role, any trustee (professional or not) must hereafter diligently seek outside expert assistance, as there are few in the financial services industry (and definitely even fewer non-professional trustees) who can keep up with the myriad of changes in the life insurance industry and all the other factors that can affect portfolios.

This is another problem, because CPAs are quick to recommend that their high-net-worth clients use trust-owned life insurance (TOLI) as the cornerstone of their estate plan. The recommendation itself is a good one—the issue is in the execution and the follow-through after the trust is in place.

One of the issues arises from the fact that many CPAs choose to serve as the trustees themselves. CPAs who are considering accepting a trustee designation should be aware of the hazards inherent to the task and make sure they have the skills and knowledge to take on the challenge, which will likely involve some specific training in life insurance. The question for CPAs then becomes this:

"Should I accept a trustee designation?"

If you do accept or are already a trustee, you can assess your approach against fiduciary requirements and best practices—and even if you do not take on this weighty responsibility, as a CPA, you can still serve critical client needs in this area.

Mitigating a Life Insurance Crisis

With the passage of the Uniform Prudent Investor Act in the mid-1990s, trustees' fiduciary duties are now held to a higher legal standard. Many of those practices, however, also apply to life insurance generally, whether or not a trust is involved.

As trusted advisers, CPAs have an obligation to educate their clients about the pending crisis in the area of trust-owned life insurance. I am not using the word "crisis" dramatically here—a legitimate problem is looming on the horizon.

What is this impending dilemma?

Certain studies have shown that more than 25 percent of nonguaranteed, flexible TOLI policies will lapse during the insured's lifetime.

Yes—one out of every four TOLI policies will lapse! So what does that mean to CPAs? First, it means that they should take the opportunity to work alongside a competent insurance expert to fully *assess* and then *protect* clients' plans. Together, we can assist clients in developing a best-practices review for their TOLI.

Here are the steps CPAs can take to best support and guide clients, whether or not they are acting as trustee:

1. Keep Up With the Market (or Find Someone Who Is)

If you are not dealing in the world of life insurance daily, it can be hard to keep up with regulations that may directly affect clients. For example, the most popular permanent life products are flexible-premium, nonguaranteed policies such as universal, variable universal, and adjustable life policies. They provide limited guarantees, while affording the policyholder flexibility on the amount and timing of premium payments.

However, unless they are funded properly and sufficiently, and *actively* managed, the flexible products run the risk of terminating with no value and no death benefit.

In recent years, interest rates have fallen sharply and are significantly lower than the interest rates illustrated when many of these policies were purchased. Similar results occurred for variable policies after the stock market downturn from 2000 to 2002. Consequently, many of these policies are in danger of lapsing.

To understand more fully, let's consider the fate of a *variable universal policy* issued in 1999. The Standard & Poor's (S&P) 500 index took more than six years to regain its value from August 2000 to May 2007. If the premiums were not increased to reflect the market losses, that policy may be in serious trouble.

Likewise, for a *universal life policy* issued in the early 1980s, the premium was calculated with an annual assumed interest rate of about

14 percent. The rate today is 4 percent. Therefore, if the premiums were not increased substantially, the policy would have lapsed.

To make matters more troubling, most flexible premium policy illustrations are calculated with the highest interest rate and lowest premium allowed. This may increase sales but does not help prevent policy lapses.

2. Keep Them Informed

How is the policy owner, a CPA, trustee, or adviser to the policy owner, to know if the policy has potential and costly issues? It's not the client's job to keep up with changes. It's the job of the financial professionals in their lives—and it's also the job of their trustee!

Sadly, a recent study in the *Journal of Financial Service Professionals* indicates that anywhere from 70 percent to 95 percent of TOLIs had no servicing agent. In many cases, the last time the agent ever sees the insured is at policy delivery. And many policyholders (not understanding insurance illustrations and how policies work) will then file the policy away in a lockbox, as if it were guaranteed.

No wonder one out of every four policies is lapsing.

Frankly, I'm surprised it isn't more.

In the case of a lapsing policy with a loan, the policy owner can even become subject to income tax due to the forgiveness of debt. Likewise, if a trustee or grantor forgets to pay the premium or assumes no premium is due when in fact it is, most insurance companies will automatically pay the premium to keep the policy in force and then count those premiums as a loan. The trustee and the grantor may be unaware of this loan and consequently unaware of the accruing interest on that loan as well.

The original illustration that advisors show to their clients is of little use. Why? Because life insurance illustrations are simply computer printouts that show various aspects of the policy such as premiums, cash values, and death benefits under interest crediting rate assumptions. *The insurance company is not required to meet these estimates.*

Sometimes the annual policy statement contains footnotes that can highlight a problem. Generally, however, the only way to know how a policy is performing is to order an *in-force ledger*, which is a re-illustration of the policy from the present as a projection of values into the future based on current mortality costs.

3. Help Them Choose the Right Trustee

A survey in *Trusts and Estates* found that approximately 83 percent of professional trustees had no guidelines or procedures for handling TOLI and 95 percent had no investment policy statement covering TOLI. Additionally, only 28 percent of nonprofessional trustees had reviewed the TOLI within the last five years.

Thus, the problem is that the trustees have neither the life insurance skills to manage TOLI, nor the procedures in place to do so. In fact, many trustees do nothing more than pay premiums and send out the Crummey notices. Add to this problem the fact that the insurance agent is no longer involved, and it's a recipe for crushed dreams.

TERMS TO KNOW:

Crummey Notice: Crummey notices are usually sent once a year to the beneficiaries of the life insurance to alert them of money that is put into a life insurance policy. Crummey notices give beneficiaries the option of demanding withdrawal of gifts to the trust before the gifts become the property of the trust. Without Crummey powers, the donor to the trust risks losing the annual gift tax exclusion.

Further exacerbating the task facing trustees is the legislative action involving the Uniform Prudent Investor Act (UPIA). The National Conference of Commissioners on Uniform State Laws drafted the UPIA as a model act in 1994.[3] It has been in force in various forms in the majority of states since then. This act holds a trustee to a higher level of conduct and provides means to enforce those standards. The trustee must act in a fiduciary capacity to achieve the objectives stated in the trust.

Additionally, the UPIA implies that life insurance should be treated as an "asset class." This requires the trustee to monitor the quality of assets given to the trust and to assess the risk tolerance of the trust. A CPA who is not a trustee can double-check to make sure the trustee is performing those duties. If the trustee is a family member, then it's all the more advisable for the CPA to play a more active role by advising the family trustee.

In many cases, CPAs can best serve their clients by assisting them in obtaining a competent corporate fiduciary or trust company to serve as trustee. CPAs should also advise clients against appointing a family member who knows nothing about life insurance as trustee.

In short, life insurance policies are complex financial investments. Life insurance expertise among trustees is limited and regulations involving TOLI have become more rigorous. However, there is a silver lining: The complexity provides an opportunity for additional services to your clients! There's Always a Silver Lining

There's no doubt about it—every grantor with a TOLI needs to have an actively managed, dynamic review process.

The trustee must also have a documented process for TOLI reviews in place. The review should begin with a ***trust investment policy statement*** (also known as TIPS). Despite the fact that this should

3 "Put Your Trust in Trustees," JofA , Nov. 98, page 69

be one of the first steps trustees take every year, only 4.7 percent of TOLIs have such a policy statement.[4]

The TIPS provide a road map for managing the policy. It also allows the trustee to better establish an action plan for policy evaluation, goals and objectives, alternative carrier options, and contingency plans if a policy fails to perform. In short, this document provides the foundation for the trustee's responsibilities.

For CPAs who are trustees of TOLI, a trust should be reviewed annually to protect grantors from unforeseen changes and to protect CPAs from legal exposure resulting from changes in the original scenario. This review should include the following steps:

1. Administrative review. Ensure that premiums are properly and timely credited to the policy, check for errors that may have been made by the insurance company, and verify that insurance titling (ownership and beneficiaries) is correct.

2. Insurance carrier review. The insurance carrier's financial integrity should be evaluated. Economic circumstances confirmed by rating agencies may provide a higher level of risk than the TIPS allows.

3. Policy performance review. The trustee must consider many factors. At a minimum, the trustee should order an in-force illustration from the insurance carrier. The in-force ledger allows the trustee to determine how the policy might perform based upon current facts rather than the original illustration. The policy should then be sensitivity-tested using various assumptions to determine how it might perform with different economic variables.

Obviously, a variable life policy should also be reviewed in terms of subaccount performance and risk. The trustee should consider hiring a money manager to monitor the investments within the policy.

4 see "The Problem With Trusts Owning Life Insurance," cited above

At this point, the trustee should have enough data to determine if the policy is performing under the TIPS. If it is performing, then document the procedures used and perform the review next year. If it is not performing, the trustee should consider remediation.

4. Optimization review. Optimization may vary from negotiating with the current insurance carrier to replacing the insurance policy to selling the policy in a life settlement. Facts in each situation will vary based upon the insured's health and economic situation.

Negotiation with the current carrier might include having the carrier lower mortality rates based upon current mortality tables, reducing the death benefits, or adjusting premium payments.

The insurance industry is constantly evolving, with new products containing new guarantees and riders. If the insured's health has not changed appreciably, the trustee should shop the policy. There have been recent changes in mortality, underwriting, and policy design that may enable the insured to obtain a new policy with the same or improved death benefit at a substantially lower cost.

One study indicated that there was a 75 percent chance that with no increase in premiums, a policy's face amount could be increased 40 percent or more through the acquisition of a new policy![5]

If the insured's economic or life circumstances have changed, explore a sale of the policy in the life settlement market. This process should be considered when the purpose of the trust has become obsolete and the fair value of the policy exceeds any other benefit.

These suggestions will enable you to not only solidify your relationship with your high-net-worth clients, but will allow you to market this relationship to other high-net-worth clients.

5 *American Banker*, vol. 163, no. 22, page 17, Feb. 3, 1998)

Life insurance is frequently the bedrock upon which a client's financial estate plan is built. If your clients have nonguaranteed flexible policies that are more than ten years old, you and your insurance professional should contact them to begin a best-practices review. We do all of this for one critical reason—to ensure that a client's foundation is not on shifting sand.

Hopefully, this discussion will motivate professional trustees to treat their responsibilities very seriously.

With great power comes great responsibility.

"We think nothing of protecting consumers from faulty toasters or unsafe cars. Is it unreasonable to suggest that investors are entitled to information they can trust before investing their hard-earned money? I don't think it's unreasonable at all."

— Jackie Speier, American politician

SECRET 12

WHY WE ARE SCARED TO RETIRE

"Smart financial planning — such as budgeting, saving for emergencies, and preparing for retirement — can help households enjoy better lives while weathering financial shocks. Financial education can play a key role in getting to these outcomes."

— Ben Bernanke, Head of the Federal Reserve

MY HOPE IS that this book provides hope where there was none. For many clients who purchased policies years ago from advisors who had no intention of staying in the industry and are probably long gone, they are completely in the dark when it comes to their policies.

I want to help those people and the professionals who serve them become aware of the potential risks as well as the potential rewards awaiting them inside their life insurance policies.

I prefer education as a form of empowering clients and I'm really not a big fan of scare tactics.

Why? Because we get scared enough in our everyday lives. If you want to get worried about your financial future and the future of your children, just turn on the news.

Scare tactics abound on television, on the web, and in the newspaper. If you are a Baby Boomer, there is no doubt you've heard warning after warning as you near retirement age.

Will I even have enough money to retire?

Will my nest egg last as long as I do?

Is the government out to get us all?

Unfortunately, there is some legitimacy to some of the warnings, as ridiculous as their delivery may be. First there is Obamacare, which is largely financed by spending reductions in the Medicare program. According to sources, if Congress implements the primary reductions proposed by the ironically titled "Affordable Care Act" over the next decade, seniors' ability to access Medicare services will fade tremendously.

Then there are the concerns that social security is underfunded. That's just the tip of the iceberg when it comes to the risks the aging generations face today. A recently study highlighted the four biggest risks of capital depletion in seniors. Those risks were found to be:

1. Unmanaged or poorly managed market risk of investments
2. Too much spending
3. Rising professional healthcare and long-term care costs
4. The cost of living longer than expected

It seems clear that seniors need to consciously and proactively address these issues. However, there doesn't seem to be much we can do to stave off the rising healthcare costs, and they are indeed substantial. The average length of care required for a long-term care incident is two years and generally happens between ages 80 and 85. The average cost per month at a private care facility is $10,000 (and those costs rise annually).

Thankfully some insurance carriers today are responding to these increasing financial burdens with new products that enable clients to shift risk and mitigate some of the dangers so many are facing.

Today's products can also supplement retirement income for people who are living longer than expected. There is also more potential than ever before for tax-advantaged cash benefits.

In short, the focus today is becoming much stronger on *living* benefits rather than death benefits. Let's fund the life we are living now! With that philosophy in mind, there are new products that can address life insurance, chronic illness coverage, and retirement income within one policy.

This is another compelling reason for clients to have their policies reviewed every two years. It's critical for them to ascertain whether they are able to take advantage of these benefits by switching old, ineffective policies to new policies that better reflect their current and ever-changing needs.

My Health is Declining … Now What?

There's arguably no other event in life that creates more lasting damages to a family than the need for long-term care later in life. Yet few financial advisers understand the serious emotional, physical, and financial consequences of providing for a family member who is so frail and so fragile that he or she is no longer safe.

There are two major types of impairments—physical and cognitive. A *physical impairment* is defined as a chronic, debilitating illness such as Parkinson's, multiple sclerosis, or stroke, which can be managed with drugs or therapy but cannot be cured. A *cognitive impairment* is a marked decline in intellect to the point that the individual needs constant supervision, such as dementia and Alzheimer's.

As either form of impairment progresses, it compromises clients until it is no longer safe for them to live and operate independently. It is this simple reality that causes two sets of serious consequences:

1. **Family Strain.** The first set of consequences affects the client's family. The demand for care quickly becomes all-consuming to caregivers, resulting in severe emotional and physical stress. If there are children, it compels at least one to place his or her life aside. As it plays out, it impacts that grown child's relationship with their spouse and children. Then there are the siblings. Because care is rarely shared, it leads (at a minimum) to constant disagreements, and for many, complete estrangement. The result? Long-term care rarely brings families together—it usually just tears them apart.
2. **Financial Strain.** Second, paying for care causes a reallocation of resources, starting with income. The considerable problem is that those who have found success generally live on all or close to all of their income in retirement, just as they did during working years. Shifting income to pay for care has a direct impact on their ability to keep financial commitments, which may include:
    - Helping a child who has not made the best decisions in life
    - Providing for a child with special needs
    - Helping pay for a grandchild's education
    - Lifestyle expenses, including a vacation home, boat, or club memberships
    - Continuing commitments to charities

Although in theory, many of these expenses may be considered discretionary, in the world of some people, they are often non-discretionary.

If the illness lasts longs enough, it invariably leads to an invasion of portfolio capital, the purpose of which is to provide predictable streams of income over the remainder of a person's life. Using capital to pay for care results in unnecessary taxes, market timing, and liquidity issues.

And just as important, every dollar used to pay for care is one dollar less toward keeping future commitments to the family, keeping commitments to charities, and providing a legacy to those whom the client loves.

In no small way, the need for care disrupts your very business model.

The Results Are In — and Fear is Winning

The Nationwide Retirement Institute did a healthcare and long-term care study in November of 2015, conducted by Harris Poll. While more than half of those polled will reach retirement age within the next decade, many do not see retirement in their future at all, and even more are unsure or scared about their financial future in general. Almost four in ten adults (37 percent) say they do not expect to retire, while 57 percent expect to retire in the next decade.

Adults are fearful when thinking about health care costs in retirement and consider delaying retirement to combat costs. The majority of adults (71 percent) admit that one of their top fears in retirement is their health care costs going out of control and 57 percent are terrified of what health care costs may do to their retirement plans. In addition, as many as 43 percent said they would delay their retirement if they had to buy their own health insurance or needed to keep their grown children on their employee-based health insurance plan.

Between 68 and 70 percent of those polled listed these four concerns as the ones keeping them up at night:

- Not having enough money to cover long-term care (LTC) expenses
- Not receiving enough through government benefits
- Not having the money to cover unplanned medical expenses
- Not having enough money to last through retirement

The fear of overwhelming LTC expenses appears legitimate, since only 15 percent of consumers reported owning LTC insurance for themselves or someone else.

With all of these statistics circulating, this next one is perhaps the most shocking: The majority (56 percent) of non-retired older adults have not had a conversation with anyone about their retirement costs.

Perhaps it's just not real enough for them yet. Maybe they have enjoyed good health during their lives or perhaps they feel their retirement and their long-term health and vitality is a "personal issue." In fact, 37 percent reported their health being a "personal issue" as a reason for not having a discussion!

Another 40 percent said they simply don't know enough about health care costs in old age to want to have a discussion. Basically they are saying that they don't want to *become educated* about their financial future because they are *not educated enough* about their financial future.

It's mind-blowing, but it also makes sense. Our clients see the scare tactics and they hear the statistics—but what they don't hear is what they can do about it.

They also don't know whom to trust.

For years, this industry has been known for spouting jargon and intimidating clients into making investment product decisions. There is no partnership—there is the client on one side of the table and all-knowing professional on the other side.

And no one feels good about that.

What if they could address these issues and feel heard at the same time they were improving the insurance they already own? It's possible through due diligence, open, two-sided conversations, and proper planning.

If you are an advisor, are you doing your part? Ask yourself if your older, non-retired clients know about important topics such as:

1. *The tax incentives available for purchasing long-term care insurance.* The IRS views LTC as a qualified health care expense. If health care expenses exceed 7.5 percent of their adjusted gross income, individuals can deduct their premiums up to an eligible amount. Business owners may be able to take a much more substantial deduction based on the structure of their business.
2. *The importance of choosing the right LTC insurance company.* The quality of the company and their financial strength can have an impact on future benefits and premiums. Most LTC insurance contracts are guaranteed renewable, which means the insurance company is required to keep the coverage in force. However, they do reserve the right to increase premiums by class. Some insurance companies have raised premiums on their policyholders while other companies have never increased premiums on their policyholders. So shop around.

It is not the clients' job to understand tax law, investment vehicles, and insurance products—it's the job of their trusted advisor. If you have not yet had that conversation with your financial advisor, lawyer or CPA, then now is the time.

Think about the confidence you'll have knowing that whether you grow old without a hitch or need some care along the way, your retirement nest egg and your legacy will remain intact.

For many, the use of life settlements can be a significant windfall when it comes to paying for unexpected medical expenses. So use every tool at your disposal to ensure that you are ready for whatever lies ahead.

Are you ready?

SECRET 13

HOW AND WHY TO GET THE MESSAGE OUT

"Talent is always conscious of its own abundance and does not object to sharing."

— Aleksandr Solzhenitsyn, Russian author

HAVE YOU EVER had a secret that you were dying to divulge, but you could not share it because it might violate a commitment you made to keep it to yourself? Even worse, what if you had an idea that could positively impact countless people, but you did not know how to spread it?

That is how I feel about the message of helping people get back to their WHY and of rediscovering and getting back in line with their ultimate goals for retirement and estate planning, specifically by using the tremendous value that life settlements can provide.

Why don't more people know about the tangible cash benefits of life settlements for those who don't want or need their life insurance policies anymore?

And why would anyone simply choose to surrender a policy back to the issuing carrier at a tremendous financial loss?

These are questions that plague me, which is why I want to do my part to get the word out and help you get the word out as well.

Clients who choose to take advantage of a life settlement stand to gain an average of four to six times the amount of money they would otherwise receive by surrendering the policy back to the issuing carrier. That increase consists of $40,000 to $60,000 in additional cash on $1 million policies, and up to hundreds of thousands of dollars or more on larger policies.

It would seem that such a tangible benefit would be something most, if not all, professional advisors such as CPAs, attorneys, and financial advisors would want to share with their clients—but that is not the case.

Let's explore some of the reasons why this is true, as well as what we can do to change this paradigm.

Collaboration is Victory

I have multiple collaborative partners within the financial services arena. We refer clients back and forth and enjoy a relationship that is truly the definition of mutually beneficial. We appreciate the constant stream of referrals, and more importantly, our clients enjoy the benefits of having multiple experts on hand that positively affect every area of their estate and their finances.

However, this type of collaborative environment among professionals in this industry is the exception rather than the norm.

Why is that?

Well, first of all, we all know that CPAs and attorneys have time constraints that force them to prioritize their actions. Most of the time, this means sticking to the activities that are in their job description.

Perhaps of more consequence, however, is the fact that these professionals seem reluctant to step outside their particular areas of expertise. So oftentimes, if they are not familiar with it, they will not bring up a topic they do not feel confident discussing.

If they did bring up a topic outside their area of expertise, they would be faced with two issues. First, if they brought in outside collaboration, it would introduce the risk of this new professional somehow harming their relationship with the client, or worse, damaging *their* reputation.

That is a valid fear in their minds and one that they cannot fully control.

The second issue is the implied understanding that by referring a client to someone else, the professional is admitting in a sense that he does not "have all the answers." Even though most people realize and accept that they can't be all things to all people, this can be an issue at times for some professionals, whether it's logical or not.

Then the issue of time prioritization comes back into play, as an attorney or CPA of a large firm is often responsible for every minute of time they are at work. Larger firms tend not to be in favor of fee-sharing arrangements, despite the fact that the tangible benefits that result from such collaborations can almost always be quantified (as in a life settlement).

This adherence to firm policy and accounting for their time spent can make it more challenging to get a professional's attention in larger firms.

However, this does not negate the fact that collaboration is often the next best step for clients—and those clients are, after all, why the financial services industry exists in the first place.

Let me share a recent success story illustrating the power and necessity of collaboration.

The client of a large trust and estate law firm requested I come speak with them regarding my work as the Life Insurance Doctor. I went to their office and shared some of my ideas, as well as the most provoking case studies of clients referred to me by other professionals. It was a lively, interactive discussion where the shocking statistics of lapsed life policies, the benefits of life settlements, and my expertise in this arena all deeply resonated with the participants.

There was no question that this law firm was not interested in any fee-sharing arrangement. They were, however, keenly interested to bring whatever expertise or resources they could to benefit their client.

A few days later, one of the attorneys who had been in the meeting called me to discuss a new client. The client was a 35-year-old woman named Julie. Julie was going through a rough spot; she had two young children and was in the middle of a difficult divorce. The lawyer had been called in because there were two life insurance policies that needed to be divided or utilized in an ultimate settlement.

When we started discussing the potential of these policies and he told me the age of the insured (Julie and her soon ex-husband), I was dubious as to any significant value. Then I learned that Julie's husband had been diagnosed with cancer and that the two policies in question totaled $8 million of death benefit between them. I also learned that there was already an offer of $3.4 million on the table.

The attorney had Julie call me personally and I agreed to look into the matter for her. When we first spoke, she asked how I would be compensated for my time. Ordinarily, my compensation is a percentage of the value added for the client, but at that early point, I was not sure what direction that might take or what it would be. I told her that remained to be seen, but I would assist her nonetheless.

She sent me the offer information from the buyer, and it immediately raised a number of issues in my mind:

1. The offer was dated five months earlier and offers do not ordinarily last that long.
2. The broker involved was charging a $430,000 success fee for facilitating the sale of the two policies. It seemed excessive, especially considering that there had only been $230,000 of total premiums paid into the two policies.
3. The tax consequences of this transaction were yet unclear.
4. It was also unclear how this transaction could be done in such as way as to make sure that the proceeds of the sale would be utilized for Julie and her children's benefit.
5. It also seemed unreasonable to receive an offer of 45 percent of the death benefit if the insured only had a two-year life expectancy.

As my team started getting involved, we found some alarming information. To begin with, the offer we were reviewing had been rescinded four months earlier. A second offer had been made by another buyer for slightly more money, but that offer was rescinded because a new life expectancy report projected Julie's husband could live for another seven years, which changed the financial dynamics.

A third buyer was found willing to pay the original $3.7 million based on averaging the two life expectancies. That was the good news. However, the bad news was that buyer was just two days away from rescinding the offer because Julie's husband had not been successful in obtaining her signature on this new deal.

Julie had some very good reasons for refusing to sign.

Not only had Julie's husband failed to inform her of all the recent changes in the buying process, but he was also trying to change the ownership of the policies so the proceeds would accrue to his benefit alone.

The law firm that referred the case was doing an outstanding job of protecting Julie's legal interests by changing the drafting of the trust ownership and by appointing a new trust protector. But now we had the issue of all deals going away, and this money—that Julie and her children desperately needed—not being available.

Fortunately, we were able to advise Julie of the immediacy of the situation. We put her directly in touch with the buying group so they would know she was still interested in selling the policies as long as she was protected in the transaction. We also persuaded the broker to reduce his fees by $160,000, and the deal was ultimately closed to everyone's great relief. We got a small fee for our time as well.

Through this collaboration, Julie received considerable proceeds to help her and her children get a fresh start. The law firm was delighted that they had been able to help Julie so much and Julie was so pleased that she referred both her law firm and me to other prospective clients and professionals.

It was a true win-win all the way around.

Become an Advisor … or Become Obsolete

Despite successes like this story, it is an uphill battle to market this type of collaborative consulting service through CPAs and financial advisors.

This is understandable, as there are deadlines throughout the year and other pressing matters that appear to take priority. It may be understandable, but the reluctance to embrace collaboration and change with the times could spell the end of the financial services industry as we know it.

In my research of the industry, I've uncovered some shocking truths. For example, Oxford University recently reported that if CPA firms continue to derive 80 percent or more of their revenues from filing returns and doing audits as opposed to being more involved with their clients—and with financial advice in a broader perspective—they were currently ranked in among the top ten out of 703 professions most likely to be replaced by technology within the next 20 years.

Wow.

One highly regarded consultant in the industry shared her helpful perspective on the matter. She said that we could easily compare the accounting industry to the railroad industry, and more specifically, to the railroad industry's loss of dominance in the world of transportation.

In the 1800s, the railroads had a narrow viewpoint of their business. They viewed themselves as individual "railroad companies" instead of part of the larger "transportation business." As a result, they were not looking to innovate and find new, better ways to transport their passengers. They were simply concerned with creating stronger locomotives and laying more tracks. Because they refused to look at the big picture, their companies were forever damaged (never to fully recover) by the alternative methods of transportation that rose in prominence shortly thereafter.

Railroads also operated under false confidence. Through tremendous consolidation within their industry, the giant railroad companies thought they had some type of geographical protection. Today, many CPA firms are also going through consolidation, and they also seem to have a false confidence that the larger accounting firms are immune to automation.

The lesson is clear—if you are in an industry that is changing, you either change with it, or those who are willing to embrace that change will replace you. In the end, those innovators will take all your customers, and ultimately, all the profit.

The opportunity still exists for CPA firms (and law firms) to take an expanded role as the trusted advisers for their clients from a broader financial perspective. It is incumbent upon them to add value and consult more with their clients on items such as life insurance that have such a great impact on their clients financial well being.

As time goes on, this will become a larger, more critical issue. More and more firms, such as family office firms and wealth management firms, are offering financial advice and analysis for their clients—and life insurance review is an ideal area for them to seek out collaboration.

What We Can Do Today

It is relatively easy to understand why many CPAs and attorneys may not fully understand the many potential benefits and money secrets hidden with life insurance policies.

But what about insurance advisors? Why aren't more of them active in this area? Shouldn't this be an area of great strength for them and a way to add value to their relationships with clients?

Yes, it should be! But as of today, it is not.

Many advisers work under the authorization or compliance of various broker-dealers, and many other captive agents work for insurance companies that simply don't want their advisers getting involved with life settlements under any circumstances.

The reasons for this range from a lack of understanding of the process—and therefore a fear that the broker-dealer could get sued—to the concern of some of the large insurance carriers that if their agents were active in this regard, fewer policies would lapse.

It's ugly but true.

Perhaps the other concern of the carriers is that if their agents engage in brokering life settlements, they may not sell enough new policies.

This is backwards, old-fashioned thinking.

It is my belief that when professionals are fully focused on what is in the client's best interest, that is where agents and companies start to flourish in every way, including both revenue and reputation.

What could be done to rectify the situation? I'm doing my best to get the word out by speaking to more clients, CPA groups, and law firms, and making them aware of the significant benefits of doing regular reviews of existing portfolios and utilizing life settlements where appropriate.

Whether through seminars, social media campaigns, email, or education of groups such as AARP, we can and will continue to get this message out to the public.

Hopefully, as CPA firms and law firms understand the need for an enhanced degree of service for their clients in this area, they start to work with appropriate experts in order to benefit their clients.

I believe that the most forward-thinking firms will gravitate toward this value-added approach to servicing their clients.

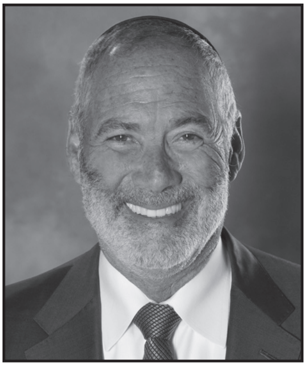
The bottom line is automation and online services are making a lot of what we do obsolete. The *one and only* thing that a website, an app, or a machine cannot provide that a professional can is personalized, tailored advice that comes only after getting to know a client's unique situation as well as his or her current priorities, goals, and financial situation.

How do you find these things out and set off a paradigm shift in the industry, where the client truly is first? It's so simple.

You ask—and then you act.

If you do not feel you are qualified to do a life insurance review, find someone who is. Talk to a trusted advisor and get the most *living benefits* you can for the life you are already living!

ABOUT DAVID KOTTLER



DAVID KOTTLER IS A national speaker, author, and entrepreneur who combines his legal and business experience with a passion for philanthropy. He earned his law degree from Cleveland State University while helping his family build Decatur Foods, a successful food distribution business that was responsible for introducing numerous retail products to the Cleveland market, including Haagen-Dazs Ice Cream and Ben and Jerry's. Decatur Foods ultimately achieved a 35 percent market share of ice cream sales in Northeast Ohio.

In 1995, David changed careers and became a financial planner, where he was able to pursue his lifelong goal of helping business owners and families effectively transfer wealth and make an impact through philanthropy.

Today, through his company, Insurance Doctor™, David leverages outside-the-box thinking to create game-changing results for his clients. He uses an innovative "True Value" life insurance review process that employs creative buy-and-sell techniques. Over the past few years he has generated millions of dollars in cash and tax benefits for his clients.

David is the author of two books. He and his colleague Geoffrey Gottesman wrote their latest book, *The Best Kept Money Secret in Your Insurance Policy*, to empower their clients and other professionals in the financial arena to get the most out of the out of the life insurance policies in their portfolios through the use of life settlements—creating value where there was none!

David's true passion is philanthropy. He believes there is a great need for education and guidance for high-net-worth individuals who wish to align meaningful life goals with hard-earned wealth. David's objective is to collaborate with clients to produce the best financial and philanthropic results for them by enabling them to understand the "why" of planning.

He lives in Cleveland with his wife, Marcela, where they have raised a blended family of nine children and currently have six lovely grandchildren. He is an avid golfer, which has been a life-long passion.

ABOUT GEOFFREY GOTTESMAN

GEOFF IS THE Managing Director at Genesis Asset Advisors, LLC. Through his knowledge of market capital, his one-of-a-kind approach and stellar relationships with funding managers, Geoff has been able to obtain offers and close some of the hardest life settlement cases in the industry, cases even providers believed were not feasible.

He is responsible for ensuring that the best opportunity is obtained on every case brought to market and uses his extensive leveraging strategies to assure that goal is accomplished. While making sure *each* client is treated like the *only* client, Geoff is expanding Genesis's growth. Geoff also assists both financial and legal professionals become more aware of life settlements and how to implement them into their practice.

He and his colleague David Kottler wrote their new book, *The Best Kept Secret in Your Insurance Policy,* to empower their clients and other professionals in the financial arena to get the most out of the life insurance policies in their portfolios through the use of life settlements—creating value where there was none!

Geoff was born and raised in Montreal, Quebec and is a diehard Montreal Canadians (HABS) fan. Geoff studied abroad for a year and a half and then moved to New York to pursue a degree in Finance. Geoff live in NYC, along with his wife and their two kids.

HOW TO SCHEDULE A TRUE VALUE™ REVIEW

WE HAVE A streamlined process to determine the value of your life insurance policies! We do not charge for this service—and if we are successful in selling a policy for you, there are no out-of-pocket costs, but simply a success fee as a percentage of what we obtain.

This method allows us to have our interests totally aligned with yours and to get the maximum price we can. If you'd like to schedule your own True Value Review with the Life Insurance Doctor, please call us at 216-857-0282 for a brief conversation, or fill out our policy evaluation form on the website below so that we can help you discover all the potential benefits that await!

www.LifeInsuranceDr.com/request-a-review