# American Seniors Are Losing Billions Every Year, Here's How the Financial Industry Can Help

Each year, some $200 billion in life insurance will lapse or be surrendered that could have been sold on the secondary market instead[1]. Two hundred billion dollars is a staggering amount of wasted wealth, particularly in a country that's facing an epic financial crisis for it's senior population.

Luckily, dramatic advancements in technology and industry have opened up what can be a new era in life settlements to solve this multibillion dollar problem.

Roughly 10,000 people in the U.S. reach their 65th birthday *every day*, according to the United States Census Bureau[2] — a demographic trend known as the "silver wave." By 2050, the number of seniors in the U.S. is projected to exceed 88 million and account for more than 20% of the population[3].

Unfortunately, that ballooning older population is facing extreme financial headwinds. Study after study has documented insufficient retirement funding for many of these older savers. At the same time, the safety nets of Social Security and Medicare are becoming less reliable as their respective trust funds approach insolvency over the next 15 years.

Given these trends, seniors should be capitalizing on every penny of value tied up in their assets, including life insurance. However, many seniors and people in general don't realize their life insurance policy is an asset that can help with retirement.

## *A lot of people with life insurance don't value it as an asset, they think of it as a lease*

*Anonymous Life Insurance Sales Rep*

For many, the perceived value of life insurance is the death benefit which can act as a financial safety net for loved ones in the case of accidental death. However, almost 90% of all life insurance policies will be lapsed or surrendered without paying the death benefit[1], which means money is being left on the table.

An insurance lapse returns nothing to the policyholder. And a life insurance surrender returns only a minimum amount of cash relative to premiums invested. Seniors can usually generate far more funding by selling those unwanted policies on the secondary market in a life settlement. Life settlements can command sales prices that are 4-11 times higher than the policy's surrender value, or up to 60% of the death benefit[4].

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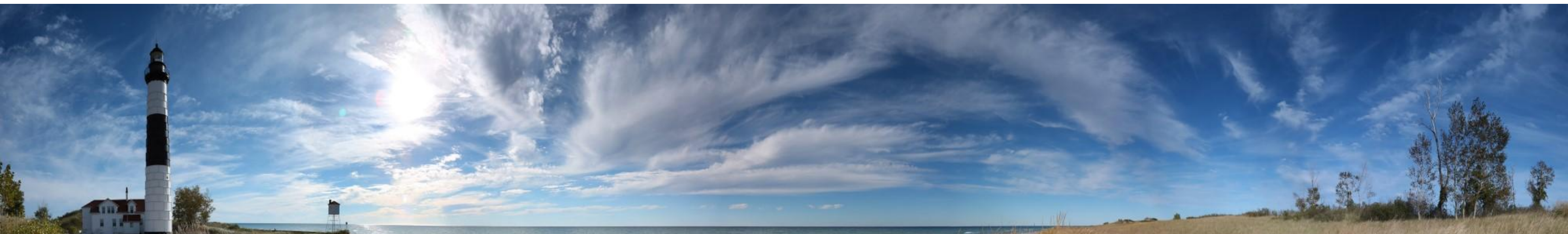


# Why Aren’t Seniors Utilizing Life Settlements?

Seniors aren't taking advantage of life settlements as much as they could — and it's not their fault. The life settlement industry is facing several challenges that hold back its growth. This is hurting policyholders, and limiting investment opportunity in an underutilized asset class.

However, hope is on the horizon — advances in technology and changes to industry standards are about to pave the way for life settlements to take off at an unprecedented pace. These changes are already happening, but before we discuss how they’re about to change the life settlement market — we’ll begin by providing insight into the factors that have held back life settlements in the past.

## 1. Lack of awareness that policies can be sold

The largest factor in the underutilization of life settlements is a lack of awareness that this option exists. A 2010 survey by the Insurance Studies Institute found that 90% of seniors who have let a policy lapse would have considered selling it if they had known about life settlements[5]. That is to say, most people don't know their life insurance policy has a secondary market value and can be sold, in some cases for a value greater than their house.

These policyholders are at a higher risk for lapsing or surrendering their policies for less than they're worth because they don't know that policies are a sellable asset.

Awareness among personal finance professionals is higher, but *acceptance* among financial advisors and broker-dealers is lower than it should be. Many advisors and brokers don't fully understand life settlements and are resistant to learn. The resistance may come from lingering, but inaccurate perceptions that life settlements are illegal or fraudulent.

Moving forward, awareness of life settlements is expected to increase as the upcoming "silver wave" of Baby Boomers looks for ways to help fund retirement. In fact, research estimates the annual gross market potential for life settlements will be $212 billion from 2019 to 2028[1].

## 2. A long, complicated process

*It sounds, to me, more complicated than selling your house. It's a long process. That's another problem.*

*Donna Horowitz, Senior Editor, The Life Settlements Report*

Selling a life insurance policy can take months. A life insurance surrender, on the other hand, takes days. Depending on the policyholder's financial situation, the faster timeline of a surrender could be appealing — even if it means liquidating the insurance for much lower proceeds. However, new advances in AI and underwriting are paving the way to make the settlement process faster and more efficient. As this technology gets better, the life settlement process should take less time enabling policyholders to quickly get money for their cases.

As an example, Harbor Life Brokerage's Exchange enables agents and advisors to upload a policy and show it to a network of buyers, which is significantly faster than filling out several sets of paperwork and sending them to providers individually. This not only saves time, it also helps policyholders get a higher value for their case.

## 3. High fees

Life settlement brokers collect commissions of up to 30%, which can be off-putting to policyholders if they don't believe the money will be recouped by receiving a higher offer than what they'd get by surrendering.

Unfortunately, some brokers are more effective than others. The broker who does not aggressively market the policy to multiple institutional buyers may produce disappointing proceeds for the selling policyholder. As such, these cases can hurt the perceived value of brokers and life settlements as an option relative to surrendering the policy.

Technological advances will make it easier for brokers to market policies to a wider array of buyers, resulting in more bids and a higher offer that can offset broker fees.

## 4. Lack of transparency

A lack of transparency in life settlements fuels distrust for the industry among advisors, broker-dealers, and policyholders.

Currently, brokers and life settlement companies don't have to tell policyholders how many buyers looked at their policy or how many offers were made. A broker could market the policy to two buyers or 20 — and then show the policyholder only the winning bid. That gives unethical brokers too much leeway to manipulate the process.

For life settlements to gain mass adoption, policyholders need transparency from start to finish. The best way to achieve this will be through a combination of technology that enables visibility throughout the process, and changes to industry standards that ensure the life settlement option is presented when it benefits clients. In fact, eight states have mandatory disclosure laws that require insurance companies to notify policyholders about life settlements before a lapse or surrender[6].

## 5. Inconsistent standards for advisors

Registered investment advisors or RIAs are held to the fiduciary standard, meaning they must always prioritize their clients' best interests. In scenarios where a life settlement is potentially a client's most lucrative solution, fiduciary duty should require an RIA to introduce the concept.

Unfortunately, conflicts can arise for RIAs who work for broker-dealers. Broker-dealers are not held to the fiduciary standard; instead, they must follow the more lenient "best interest" standard defined in Regulation Best Interest (Reg BI). In practice, broker-dealers may prohibit their RIAs from discussing or facilitating life settlements which creates a legal gray area that can result in situations where a life settlement should be recommended, but isn't.

Moving forward, as life settlements become more popular it's likely there will be a strong push for equal standards between these parties. If a life settlement is in someone's best interest, their advisor or agent should be required to inform them of this option. The SEC attempted to address this issue in 2019 with the Reg BI rule, but many argue that while it was a step in the right direction — the policy needs to be expanded in order to cover assets that aren't a security.

## 6. Life insurance companies discourage agents from doing settlements while they secretly do it themselves

In some cases where a policyholder expresses interest in pursuing a life settlement, their life insurance carrier may discourage them from doing so in favor of surrendering the policy. In these situations, life insurance carriers may ask policyholders to halt the life settlement process and provide a limited-time offer significantly higher than the normal cash surrender value of the policy.

Some insurance carriers are going a step further by proactively reaching out to elderly or sick policyholders and offering to buy out policies through a process that mimics a life settlement, but with an offer that is significantly lower than what the policyholder would be able to get on the free market. For example, two prominent insurance companies used the following marketing language to encourage people to sell their policy to back to the carrier[7]:

- **John Hancock**: "We would like to offer you an option that might better align with your current financial needs. Like many of our customers, you purchased your life insurance policy with a specific financial goal in mind. What fit your needs and met your goals at that time, may no longer work for you."
- **Lincoln National**: "Here are some circumstances that could prompt a review of your financial plan and life insurance coverage: Changing family needs, marriage, divorce, or family member care. Health considerations - a need for benefits that address health related expenses. Market or policy changes - your current financial situation has changed since purchasing this policy… Career changes - a new business development or shift in leadership."

The idea is to try and get people to surrender or sell their policy back to the insurance company instead of a third party so the insurance company never has to pay out a death benefit.

This isn't a radical idea, it's how the entire insurance industry operates. Insurance companies work under the assumption that most of their policyholders will never file a significant claim — such as their house burning down, developing a life-threatening medical condition, or collecting a death benefit after a lifetime of continuous payments. If every policyholder filed a claim of this proportion, these companies would not make a profit.

So, when a life insurance carrier offers to buy out their client's policy, it's not because they think it's in the client's best interest — it's a last ditch effort to minimize their losses.

These practices discourage legitimate life settlements and are highly unethical and even illegal in some cases. These offers by carriers violate statutes that regulate insurers, such as the "Smoothness Test" of standard nonforfeiture law that[7]:

- Requires a "reasonably orderly sequence of increases in the actual cash value"
- Requires "consistency of progression of cash surrender values"
- Prohibits "sharp increases" in cash surrender value and "benefits available only during certain windows of time"

Furthermore, these offers by insurers also evade statutes that regulate life settlement companies, including rules that require rescission periods and disclosure of alternatives and compensation. As a result of insurers violating these statutes, some regulators have fined carriers. For example, Lincoln National was fined by several state regulators and has since stopped these practices in those states[7]. However, some insurance carriers are continuing these practices that restrict consumers from getting fair market value for their policy.

As noted earlier, in many cases a life settlement can provide a return that is 4-11 times higher than the cash surrender value from the insurance carrier[4]. Even if the insurance carrier increases their cash surrender value, policyholders should still take their policy to the free market in order to see if someone else would pay more for it.

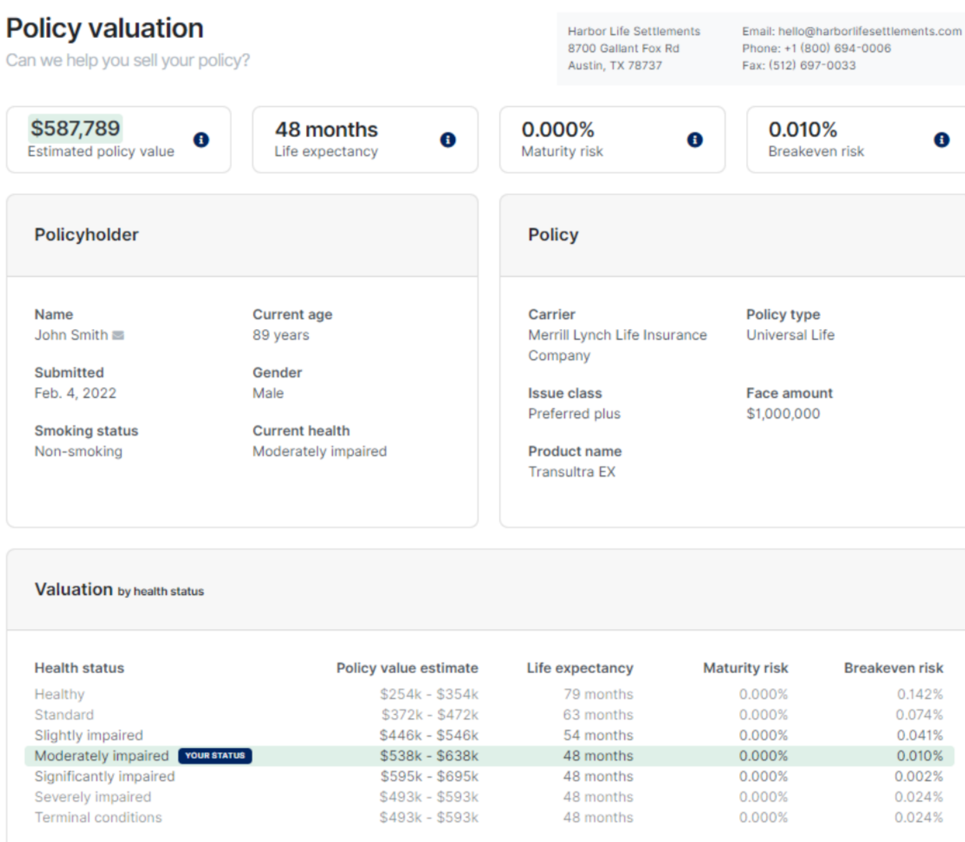
As awareness of life settlements increases, consumer knowledge of these unethical practices should also grow. However, the best way to protect consumers will be through legislation that prevents life insurance carriers from using these tactics to restrict life settlements.

# How Technological Advances and Changes to Industry Standards Are Helping to Solve issues With Life Settlements

While life settlements are currently being underutilized, we believe that advances in technology and industry standards will help solve many of the issues noted above.

Technological advances will help automate and streamline aspects of the life settlement process to make it faster with fewer fees and more transparency. Technology will also play a pivotal role in helping families take a proactive approach to their decision on whether to sell, lapse, or keep a life policy by illuminating previously hidden information that has historically been obfuscated to benefit insurance companies instead of families.

Harbor Life has developed an AI driven algorithm called My Policy Predictor that drastically cuts down the life settlement policy valuation process to help consumers, agents, and financial advisors instantly predict the value of a policy on the secondary market. Using AI and machine learning, people can provide a few basic details about their policy and instantly get a realistic range estimate that's up to 89.2% accurate. This is a major technological breakthrough because it reduces the time of initial underwriting from 1-3 months down to 1 minute.



**Policy valuation**

Can we help you sell your policy?

Harbor Life Settlements
8700 Gallant Fox Rd
Austin, TX 78737

Email: hello@harborlifesettlements.com
Phone: +1 (800) 694-0006
Fax: (512) 697-0033

$587,789 Estimated policy value | 48 months Life expectancy | 0.000% Maturity risk | 0.010% Breakeven risk

**Policyholder**

Name: John Smith
Current age: 89 years
Submitted: Feb. 4, 2022
Gender: Male
Smoking status: Non-smoking
Current health: Moderately impaired

**Policy**

Carrier: Merrill Lynch Life Insurance Company
Policy type: Universal Life
Issue class: Preferred plus
Face amount: $1,000,000
Product name: Transultra EX

**Valuation** by health status

| Health status | Policy value estimate | Life expectancy | Maturity risk | Breakeven risk |
|---|---|---|---|---|
| Healthy | $254k - $354k | 79 months | 0.000% | 0.142% |
| Standard | $372k - $472k | 63 months | 0.000% | 0.074% |
| Slightly impaired | $446k - $546k | 54 months | 0.000% | 0.041% |
| Moderately impaired YOUR STATUS | $538k - $638k | 48 months | 0.000% | 0.010% |
| Significantly impaired | $595k - $695k | 48 months | 0.000% | 0.002% |
| Severely impaired | $493k - $593k | 48 months | 0.000% | 0.024% |
| Terminal conditions | $493k - $593k | 48 months | 0.000% | 0.024% |

By comparison, most similar life settlement calculators give a broad range estimate such as “between $50,000 - $400,000” with the main purpose of showing enticing and often unrealistic offers to generate leads. We believe that people have a fundamental right to know the value of their assets so they can make the best decisions for their families and that technology like My Policy Predictor paves the way to that future.

Unlike other tools that over promise with unrealistic figures to increase leads, we use a market-driven approach built on big data to provide more accurate estimates. To do this, our algorithm analyzes millions of data points from our entire library of cases in order to show real market value including expected commission for agents. It also estimates after-tax implications of selling a policy versus continuing to pay premiums, so sellers can see how much they’d spend maintaining the policy or how much they’d gain by selling and reinvesting premiums over time. Moving forward, the AI and machine learning technology that drives My Policy Predictor will help it get more accurate over time as additional policies are submitted.

Much like how the MLS system in real estate allowed a seller to get their property in front of every buyer in the market, our life settlement auction platform amplifies a seller's reach to increase competition and find a true market value. By leveraging our technology, policies can be put in front of every institutional buyer in the world — which increases competition resulting in more bids and higher offers than what is possible through the regular process. This technology also adds transparency, as policyholders can see how many buyers looked at their policy and how many offers were made. Changes in industry standards will also help with these issues, as equal standards for RIAs, financial advisors, and broker-dealers will ensure this option must be presented when it benefits clients.

Considering that 90% of life insurance policies will be lapsed or surrendered without paying the death benefit[1], it is imperative that the finance industry and consumers utilize this option more than they currently are to prevent the unnecessary loss of billions each year.

# The Looming Retirement Crisis

The American senior population is exploding. Millions of individuals nearing retirement age do not have funding to cover their living expenses after they leave the workforce.

## *Nearly one-quarter of Americans say they never plan to retire.*

*Andrew Soergel, Writer, Associated Press[8]*

Beyond living expenses, about 70% of seniors will also have to pay for long-term care. Today, those services cost $4,500 to $8,000 monthly. By 2030, long-term care costs will rise to a range of $6,000 to $12,000 monthly, according to insurance company Genworth[9]. The low-end of those ranges pays for full-time homemakers. The high-end represents estimated costs for a private room in a nursing home[9].

# Unlocking Billions for Retirement Funding

The financial services industry, not the government, is best positioned to solve this looming retirement crisis. *And life settlements can be central to that solution.*

Consider how much additional senior funding would be available if:

- Life settlements were widely accepted as a desirable financial strategy to liquidate life insurance.
- Every senior compared the value of their life insurance on the secondary market to the policy's surrender value — prior to making any decisions to terminate coverage.
- Senior policyholders could sell their life insurance with confidence that they'd have full transparency into the transaction.
- Financial advisors, insurance agents, RIAs, and broker-dealers are obligated to objectively evaluate whether a life settlement makes sense for their clients.

*Financial advisors have a fiduciary responsibility to their clients to share with them what their best options are, irrespective of commissions that are generated. Yet, many of the companies they work for don't allow them to do exactly that.*

*Bill Schatz, Senior Director, Partnerships, Harbor Life Brokerage*

If the life settlement industry can evolve and improve to reach mass adoption, seniors with life insurance could unlock billions to fund their retirement.

This industry evolution will have to include:

- **Quicker valuations** on life insurance, so policyholders know the value of their asset.
- **Lower fees**. The industry has vast growth potential. If realized, that growth creates a win/win. Brokers and other players charge lower fees but close more deals for higher income overall. Individual customers pay less per transaction.
- **Greater acceptance** of life settlements among financial professionals and advisors, as well as broader recognition that life insurance is a valuable asset in retirement planning.
- **More transparency** so policyholders understand how their policies are being marketed, to whom, and who's earning commission on the sale.

The shift to greater transparency and broader acceptance of life settlements is already happening. The Harbor Life Brokerage Exchange is one step in the right direction. The Exchange provides all parties involved in a life settlement with transparency on the asset, sale terms, and commissions earned. The highest bidder wins the case, period. There's no room for backdoor deals.

The future of life settlements relies on a fully transparent transaction process. That's the best step the industry can make to break away from its past and achieve mass adoption.

## Whitepaper Preview

Too many seniors in the U.S. today are edging towards financial ruin. They're under-funded and reliant on government programs to keep them out of poverty in their senior years.

Those government programs — Social Security, Medicare, and Medicaid — are not sustainable in their current form. Without major legislative action, millions of retirees will see their Social Security and Medicare benefits cut by double-digit percentages in the next 15 years. Medicaid's funding model is more solid, but that program too could break under the weight of a rapidly aging population.

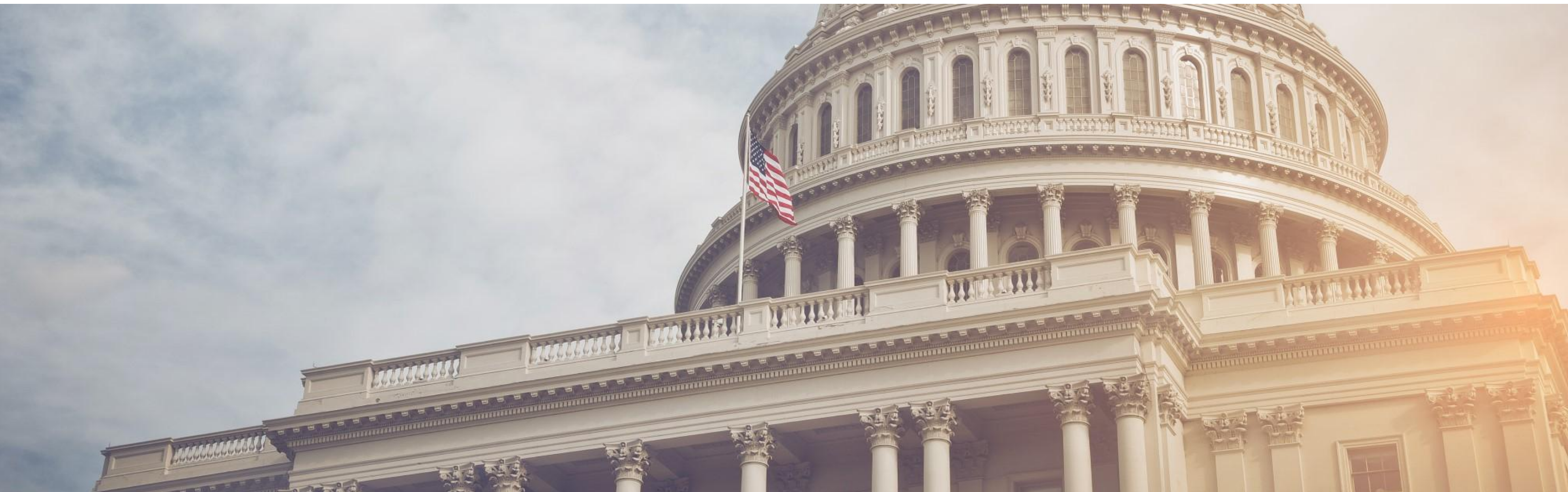
Greater adoption of life settlements could ease this impending crisis. That's why life settlement professionals have a responsibility to clean up their industry. The livelihood of seniors around the country depends on it.

To understand where the life settlement industry is today, it helps to look at its past. Next is a brief history of life settlements, plus an overview of how these transactions work and real-life examples of life settlement outcomes. That section is followed by a deeper look at where the industry is faltering, and why now is the time for evolution and growth.

# History of Life Settlements

The U.S. Supreme Court validated the legality of life settlements in the early-1900s[10]. The case was Grisgby v. Russell, and the policy in question was formerly owned by a man named John C. Burchard. Burchard needed a medical procedure he couldn’t afford, so he sold his life insurance policy to his physician, Dr. Grigsby. Grigsby subsequently paid the premiums and kept the policy in force through the remainder of Burchard’s life.

When Burchard later passed away, the executor of the Burchard estate contested the death benefit payout to Grigsby. The Supreme Court ruled in Grigsby's favor, arguing that life insurance is private property and can legally be sold by its owner.



Notably, Associate Justice of the Supreme Court Oliver Wendell Holmes Jr. said:

> ***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.***

*Oliver Wendell Holmes Jr.,* Associate Justice of the Supreme Court of the United States

## The Rise of Viatical Settlements in the 1980s

Decades later, a secondary market for life insurance would develop out of necessity, using Grigsby v. Russell as the legal precedent. This happened in the 1980s as the AIDS crisis gained momentum.

At that time, an AIDS diagnosis was terminal. Only experimental treatments were available, and they were expensive. The primary treatment was AZT (azidothymidine), and it cost about $16,500 a year in today's dollars[11]. Many patients, especially those who were unable to work, desperately needed a funding source for treatment.

The epidemic set a stage for rapid growth in viatical settlements, which are life insurance sales for terminally ill policyholders. Brokers marketed viatical settlements almost exclusively to people living with AIDS. The market was large. In the early 1990s, HIV was the leading killer of Americans aged 25 to 44[11].

The viatical settlement industry grew quickly as a result, but there were growing pains. These transactions were unregulated, which allowed space for unethical players to operate. Sadly, too many individuals with AIDS were taken advantage of. Among surviving friends and family, viaticals developed a negative reputation.

HIV/AIDS treatment would soon evolve to a combination of protease inhibitors with AZT. That treatment protocol improved lifespan and life quality for individuals living with the deadly disease. As a result, viatical settlement activity declined in the 1990s. Life settlements subsequently began to grow in popularity.

# Life Settlement Regulations

The momentum in life settlements caught the attention of state regulators in the late 1990s. The industry has since been shaped by state regulations as well as:

- ***The Life Settlements Model Act***, adopted by the National Conference of Insurance Regulators (NCOIL) in 2000. The act lays out requirements for contracts, disclosures, and reporting. It also specifies licensing requirements for agents and providers and describes prohibited business practices.
- ***The Life Insurance Consumer Disclosure Model Act****,* adopted by NCOIL in 2010, which mandates written disclosures to seniors in danger of policy lapse.
- ***Tax Cuts and Jobs Act****,* signed into law in 2017, which defined a more favorable tax treatment for life settlements.
- ***State-imposed waiting periods and disclosure laws****.* Eight states require life insurers to tell policyowners about life settlements before they surrender or lapse their policy. Thirty-three states have waiting periods, meaning a policy must be in force for a minimum duration before it can be sold. A state-mandated waiting period prevents people from buying insurance solely for the purpose of selling it. These waiting periods range from two to five years.

# Media Coverage of Life Settlement Investor Fraud

Even as state regulators and industry groups set standards for the life settlement industry, a few notable cases of fraud have put the industry in a bad light. In July of 2016, a bankruptcy judge approved a $1 billion settlement to resolve a class action lawsuit against viatical settlement provider Life Partners[12]. Life Partners defrauded investors by presenting inaccurate life expectancy data on insureds, which is a key factor in determining a policy's value to an investor.

Also in 2016, AIG and Coventry settled a lawsuit alleging $160 million in hidden markup and fees on life settlements[13]. AIG accused Coventry of overcharging for life settlements the company had purchased on behalf of Lavastone Capital LLC, an AIG company.

Unfortunately, these and other widely publicized disputes draw negative attention to life settlements. Given the lawsuits and headlines, it's understandable that policyholders, investors, and financial services professionals often assume the life settlement industry lacks integrity.

## Despite Negative Press, There Are Positives

Meanwhile, there are honest professionals liquidating unwanted policies for seniors regularly. These stories don't make headlines, unfortunately.

When a life settlement is managed professionally and with transparency, it creates value for all parties. Senior policyholders receive a cash outlay, brokers earn their commission, providers add an asset to their portfolio, and investors generate healthy returns.

Today, the industry moves towards greater adoption and acceptance. That's being pushed by direct-to-consumer marketing campaigns created by individual industry players, as well as by joint marketing and awareness efforts coming from the Life Insurance Settlement Association (LISA). As The Life Settlements Report's Senior Editor Donna Horowitz points out, over the years LISA has built awareness through conferences, guest articles, blogs, its website, and advocacy of consumer-awareness bills. And because of these efforts, more policyholders are understanding they can sell their life insurance for maximum value, and they are responding to that value proposition.

However, Horowitz and others in the industry believe more can be done on the awareness side. "Individual marketing campaigns and the work through the trade group LISA have helped make the life settlement more well known than it used to be, but there is still room to grow. Life settlements are not a household name yet." Horowitz believes the life settlement market could take a page from the reverse mortgage market and join forces on an even larger scale to generate awareness. A bigger, collaborative marketing effort with more industry players and consistent messaging could create more value for life settlement brokers, providers, advisors, and underfunded senior policyholders.

# Life Settlement Process Overview

Few people are aware of what a life settlement is, and even fewer have an understanding of how they work. A common question among advisors and policyholders is: How long does it take to sell life insurance in a life settlement? Usually, the process spans two to four months, as the policy moves through nine steps from application to completion.

1. ***Application.*** To start the process, the policyholder completes an application with a life settlement company or provider. The application collects details about the insured and the policy, including the insured's age and policy's size, type, premiums, and cash value.
2. ***Documentation*.** The insured also signs medical releases and provides contact information for health care providers. The life settlement company then works behind the scenes to gather medical records that verify the insured's health.
3. ***Review and underwriting*.** In this phase, the life settlement company verifies the insured's medical history is complete. The health information is forwarded to a medical underwriter who prepares a life expectancy report or lifespan estimate. Estimated lifespan is a critical factor in the market value of a policy. Therefore, the underwriter's report becomes part of the case file, viewable by prospective buyers.
4. ***Bidding auction (for broker-managed settlements).*** If a broker is managing the life settlement, he or she will market the policy to multiple buyers and establish a bidding auction. This can involve several rounds of bids and negotiating, with the broker working to secure the highest sales price possible for the policyholder. If the policyholder is selling directly to a life settlement provider, there is no bidding auction.
5. ***Offer*.** At the close of the auction, the life settlement company recaps the activity with the policyholder and presents the highest offer.
6. ***Closing package*.** After the policyholder accepts an offer, the broker assembles the closing documents. These usually include a contract, life expectancy report, insurer verification that the policy is in force, and a letter of competency. The letter of competency is a physician-signed document verifying that the policyholder is of sound mind, capable of making financial decisions. The closing package may differ slightly, depending on the state where the policyholder lives.
7. ***Notification*.** The broker notifies the insurance company that the policy has a new owner and beneficiary. The insurer reviews and verifies the documentation, makes the changes on the policy, and then notifies all parties that the changes are implemented.
8. ***Funds transfer*.** After the policy ownership and beneficiary have been updated, an escrow agent distributes the sale proceeds to the policyholder. The broker's commissions and other fees are also paid for from the escrow account.
9. ***Rescission period*.** A rescission period is a state-defined window when the policyholder can still cancel the transaction. The exact timeline varies by state, but one or two weeks is common. After the rescission period ends, the life settlement is final and cannot be rolled back.

# Real Life Settlement Examples

Life settlements have positive outcomes for selling policyholders. Cash-strapped seniors and their families are often thrilled to learn how much wealth is locked up in their life insurance. Plus, selling the policy can be the least intrusive solution to a financial bind — preferable to selling a home or liquidating investments that provide income.

At Harbor Life Brokerage, our clients share their positive stories every week. Below are a few real-life examples of how a life settlement can generate cash to improve people’s life quality.

## 1. Improved living situation for a grandmother

A grandmother was living in a subpar nursing home because it was all her family thought they could afford. The family sold the grandmother's life insurance and moved her into their home, then used the life settlement proceeds to hire a full-time nurse.

## 2. Funding for medical treatment

An insured diagnosed with breast cancer approached us to sell her policy. She needed the funds to pay her medical expenses and treatment costs. We were able to secure the sale at 60% of the policy's death benefit so she could afford her treatment.

## 3. Making the most of limited time

One woman came to us while her husband was in the early stages of dementia. They sold their life insurance policy and used the proceeds to take the trip of a lifetime before his dementia progressed further.

## 4. Using life settlement proceeds to pay off debt

Data from 2021 suggests 77% of Americans have debt, with an average debt of $58,604 per person[14] from sources such as a mortgage, student loans, or credit cards. One couple came to us when they were in significant debt, as they were worried they’d have to sell their house and were looking for alternatives to pay off the debt. Few people realize their life insurance policy is one of their largest assets, and in this case, the couple was able to sell their policy and keep their house.

### 5. Getting money for a policy someone was about to lapse because it was no longer affordable

In some cases, policyholders may experience life changes that lead to them no longer being able to afford the policy anymore. In one such case, a 58-year-old terminally ill man was no longer able to work and his term level period ended, so his premiums were about to go up drastically. He was going to drop the policy, but saw our ad and sold it for $400,000 instead. With the money, he was able to pay for his living expenses while out of work and put money aside for his children.

## Options for Policyholders to Go About the Life Settlement Process

Policyholders can move forward with a life settlement in three different ways. They can work directly with a buyer, called a life settlement provider. They can also hand their policy to a broker to sell on their behalf. Or they can work with a life settlement company. Below is an explanation of how each of these professionals handles a life settlement.

### 1. Selling direct with a life settlement provider

A life settlement provider purchases life insurance policies directly. When a policyholder sells directly to a provider, there is no bidding auction or broker commissions. The provider makes an offer, and the policyholder accepts or rejects that offer.

> *If you go just to one provider, it'll probably go faster, but you might get a cheaper price because it's not competitive.*
>
> *Donna Horowitz, Senior Editor, The Life Settlements Report*

The advantages of selling directly to a provider include:

- ***No commissions***: The offer price presented by the provider is the amount the policyholder receives.
- ***Shorter process***: Since there is no bidding auction, the settlement process from start to finish may be shorter.

The disadvantages of selling directly to a provider are:

- ***Lower sales price**:* Life settlement providers are motivated to buy the policy for the lowest price possible. With no competition on the sale, the provider has no incentive to put the best offer forward. For that reason, brokers usually command higher selling prices than providers.
- ***More paperwork for the policyholder**:* Brokers manage the details of life settlements. If there's no broker, the policyholder must prepare and coordinate the paperwork and other documentation.

## 2. Selling through a life settlement broker

A life settlement broker markets the policy to multiple buyers and manages a bidding auction. The broker also prepares contracts and coordinates the documentation before and during the closing process.

The advantages of working with a broker are:

- ***Higher sales price***: Brokers deliver higher sales prices. The bidding auction naturally creates competition, which drives the prices up.
- ***Less paperwork and coordination***: Brokers negotiate, field offers, and manage documentation details, so policyholders don't have to.

The disadvantages of working with a broker include:

- ***Commissions***: Brokers charge commissions, which some policyholders view as a negative. Policyholders often net higher proceeds after commissions, however, because of the higher sales price.
- ***Longer process***: An experienced broker will manage up to 10 rounds of bidding on a single policy. This adds time to the life settlement process, though it does typically result in higher proceeds for the policyholder.

## 3. Policyholders act as their own broker

Policyholders can choose to act as their own broker — meaning they would seek offers from multiple providers, manage bids, and handle all documentation in the life settlement process on their own.

The advantages of a policyholder acting as their own broker include:

- ***No commissions:*** Since the policyholder is managing the process on their own, they won't have to pay any commission fees to another party.

The disadvantages of a policyholder acting as their own broker include:

- ***Complexity can lead to undervaluation:*** Life settlements are complex financial transactions that even some financial experts don't fully understand. When policyholders act as their own broker, unfamiliarity with the life settlement process can lead to undervaluation resulting in a lower sale price for the policy.
- ***Paperwork and time:*** Policyholders who act as their own broker will have to manage all paperwork including several layers of underwriting for each provider and all documentation during the closing process. This will require substantial time, and can extend the process length.
- ***Difficulty finding buyers and negotiating:*** While policyholders may be able to find buyers through their own research, it will likely be a limited scope compared to the network that brokers offer. Furthermore, brokers are professionals in the bid negotiation process — they know how to maximize the value of a policy and will likely be able to get a higher value than a policyholder would.

## Shift Towards Uberisation

Uberisation is the process of accessing value locked in under-utilized assets. The term comes from the rise of ride-sharing company Uber. Uber's business model revolutionized transportation by leveraging privately owned vehicles and drivers' free time. Vacation rental marketplace Airbnb also follows that model to create value from empty rooms in people's homes.

Life insurance is an under-utilized asset. More than 90% of life insurance policies that are terminated each year are either lapsed or surrendered[15]. And about 80% of those lapses and surrenders return nothing to the policyholder[15]. Those policyholders who'd qualify for a life settlement are essentially throwing away wealth.

Even if a life settlement isn't the right fit for someone due to ineligibility or by choice, there are other ways to get money from a policy that people may be unaware of. For example, people with whole life insurance may be able to use their policy as collateral for a loan. Harbor Life Brokerage's Whole Life Insurance Loan Program offers a way for policyholders to get out of paying premiums and receive a one-time, tax-free cash payment worth up to 95% of the policy's cash surrender value. The policyholder can choose to repay the loan or not, as the death benefit will cover the loan balance when they pass away and the remaining death benefit amount will be awarded tax-free to beneficiaries.

The point is, that many people aren't aware that life insurance is an asset. Lapsing or surrendering should be a last resort, but there are almost certainly other options to get a better return from policies.

*I have a client that has five life insurance policies, with no idea what to do with them*

*Mark Beedenbender, President, Elite Financial Planning & Wealth Management, Inc.*

Today, more seniors are looking to their assets for creative ways to generate cash and fund their living expenses. In this regard, life insurance is an easy win — far easier than ride-sharing or managing vacation rentals.

# Current State of Social Security, Medicare, and Medicaid

The current and future states of federal "safety net" retirement programs contribute to the funding shortfall seniors are facing.

To start, Social Security, Medicare, and Medicaid are not designed to support a comfortable retirement lifestyle on their own. They're not even rich enough to keep senior beneficiaries out of poverty. These three government programs provide partial financial protections, intended only to supplement seniors' personal savings.

## Social Security

The average Social Security recipient today receives about $1,500 monthly in retirement benefits[16]. That's $18,000 annually, which is not a livable wage.

By comparison, the median annual salary for a U.S. worker aged 55 to 64 is $59,332[17], more than three times higher than the average Social Security benefit. Seniors who haven't saved and become solely reliant on Social Security are essentially facing a 70% pay cut in retirement.

## Medicare

Medicare also provides incomplete support. The government-funded healthcare program only covers hospital stays and outpatient services. Long-term care is excluded.

A study from the Kaiser Family Foundation (KFF) concludes that the average Medicare beneficiary paid $5,460 in out-of-pocket medical expenses in 2016[18]. That total would consume 30% of the average retiree's Social Security benefit. And, based on the way Social Security calculates cost-of-living adjustments (COLAs) for beneficiaries, that percentage of healthcare costs to Social Security income could rise quickly.

The Social Security Administration calculates COLAs from movements in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Critics of this formula say the CPI-W underrepresents how much seniors actually spend on healthcare[19]. If healthcare inflation is high — as it was through most of 2019 and 2020 — seniors can *lose* purchasing power with the CPI-W-based COLA[20].

## Medicaid

Medicaid does cover long-term care costs, but only for impoverished households. The income and asset thresholds to receive Medicaid support are very strict. Many who need long-term care sadly have no better choice than to spend down their assets to qualify.

Often, that spend-down process *requires* a surrender or lapse of life insurance. This is because selling life insurance in a life settlement can make a senior ineligible for Medicaid. That means too many seniors must therefore choose to give away their life coverage in exchange for Medicaid eligibility.

# Outlook for Social Security, Medicare, and Medicaid

Demographic trends and government projections suggest that Social Security, Medicare, and Medicaid benefits may be dramatically cut back within the next 15 years — which unfortunately means the upcoming silver wave of seniors won't have these programs to help fund their retirement.

## Social Security

Social Security pays for benefits for current recipients via payroll deductions from those who still work. In a given year, the income from payroll deductions can be higher or lower than the funding needed to pay that year's benefits. When the income is higher, the excess goes into the Old-Age and Survivors Insurance (OASI) Trust Fund. When income is lower than expenses, the balance in the OASI Trust Fund covers the gap.

This system has worked for decades, but it's now close to a breaking point. The latest projections from the Social Security and Medicare Board of Trustees estimate that the OASI Trust Fund reserves will be depleted in 2033[21].

The rapid depletion of reserve funds is being driven by the silver wave of retirees. Social Security's second largest population of income-producing workers, Baby Boomers, are moving into beneficiary status. This creates an income dip that coincides with a rise in expenses.

Once the trust fund reserves are consumed, Social Security cannot pay out more than it generates in income. Based on current estimates, the program's income will only cover 78% of benefits starting in 2024. That would reduce a $1,500 monthly benefit to $1,170[21].

## Medicare

Medicare's timeline to full depletion of reserves is even shorter than Social Security's. The same factors are in play. Medicare expenses are on the rise as the U.S. population ages. Between 2010 and 2050, the number of seniors aged 65 and older in the U.S. will double from 40 million to about 84 million[3]. Given that Medicare per capita spending rises with age, Medicare feels the sting of this trend sharply.

The Hospital Insurance (HI) Fund, which supports Medicare Part A, will be depleted by 2026. Thereafter, Medicare's income can only pay 91% of expected benefits[21].

Medicare's Supplemental Medical Insurance (SMI) Fund, which pays for Part B and Part D benefits, does have adequate funding at this time — only because the program can adjust beneficiary premiums annually to balance the next year's budget. Benefits costs, particularly for prescription drugs, are rising rapidly. Those higher costs will translate into higher premiums for beneficiaries and, possibly, higher taxes for workers[21].

The future of the Affordable Care Act (ACA) is another factor that can help or hurt Medicare. The ACA has helped reduce Medicare spending. Repealing the act would therefore exacerbate Medicare's funding shortfall. In 2015, the Congressional Budget Office and the staff of the Joint Committee on Taxation estimated that repealing the ACA would increase federal budget deficits by $137 billion between 2016 and 2025. The change would be mostly related to Medicare spending[22].

## Medicaid

Medicaid has a more flexible financing structure, with funds coming from state and federal governments. Even with the cost-sharing model, Medicaid is the third largest domestic program in the federal budget[23]. For states, Medicaid spending also represents a large and growing share of annual spending. In 1990, Medicaid spending consumed about 10% of state budgets. By 2016, that percentage had nearly doubled to almost 20%[24].

Given the size of Medicaid spending for federal and state governments, the program is a target for budget cutbacks. This is demonstrated by the resistance to Medicaid expansion at the state level. ACA provides for nationwide expansion of Medicare eligibility. In 2012, however, the Supreme Court ruled that expansion should be optional for states. As of October of 2021, 12 states had not yet adopted Medicaid expansion[25].

Medicaid may be pushed to its limits as Baby Boomers age. As noted, 10,000 people will turn 65 every day through 2030. More than two-thirds (70%) of these seniors will need some form of long-term care. A study by Urban Institute for ASPE estimates that only 14% of older adults could afford to pay for nursing home care from their income. Further, seniors who use their savings to fund nursing home care run out of money in 11 months on average[26]. Once their wealth is depleted, these seniors will likely turn to Medicaid as a funding source[26].

## Low Retirement Preparedness

The uncertain future for Social Security, Medicare, and Medicaid is exceptionally problematic because so many seniors are short on personal savings. The median retirement savings for workers in their 60s is $202,000, according to a study by Transamerica Center for Retirement Studies[27].

Assuming an annual withdrawal rate of 4% as recommended by retirement planners, $202,000 in savings delivers an annual income of $8,080. That's woefully short of what most U.S. workers need to supplement Social Security and avoid a lifestyle downgrade.

An already low retirement preparedness across the senior population will get much worse if Social Security, Medicare, and Medicaid face benefit cutbacks due to lack of funding.

# Underutilization of Life Settlements in the Financial Services Industry

The financial services industry is actively contributing to the brewing retirement crisis in the U.S. Financial advisors, planners, agents, and brokers around the country tell their clients daily that it's acceptable to lapse or surrender life insurance for less than its market value. That needs to change.

In the aftermath of the mortgage crisis, 4.9% of homeowners in the U.S. were three or more months behind on their mortgage. More than 2% of U.S. properties had foreclosure filings in 2010. The spike in foreclosures made national headlines, for obvious reasons. Some 2.8 million homeowners were at risk of losing a major financial asset, their home, and getting no value in return[28].

Foreclosure statistics at that time were troubling to the entire financial community. And yet, the industry turns a blind eye to the greater, ongoing loss of wealth associated with life insurance. As noted, more than 90% of life insurance policies are lapsed or surrendered each year.

As with a mortgage foreclosure, policyholders often receive no cash proceeds from the asset loss — despite having made a sizable, cumulative investment in that asset over time[29].

*Treat your life insurance like you treat your house. Do an evaluation and see what it's worth*

*Anonymous Life Insurance Sales Rep*

Surrendering life insurance for pennies on the dollar or lapsing life insurance for nothing is not a financial strategy. It's a waste of wealth.

*The biggest household names are the ones who don't allow life settlements including Merrill Lynch, Wells Fargo, Morgan Stanley.*

*Bill Schatz, Senior Director, Partnerships, Harbor Life Brokerage*

The largest broker-dealer investment firms in the country are helping seniors throw away the wealth locked in their life insurance. Merrill Lynch, Wells Fargo, and Morgan Stanley prohibit employees from talking about life settlements to their clients or facilitating life settlements for clients.

*The largest broker dealers in the country do not allow financial advisors to fulfill their fiduciary responsibility for their clients.*

*Austin Barnes, Vice President, Partnerships, Harbor Life Brokerage*

# Why Life Settlements Are Underutilized

Several factors contribute to the underutilization of life insurance, ranging from lack of knowledge on the part of financial professionals to an overemphasis on the tax efficiency of death benefits.

## 1. Lack of knowledge

> *For people who have been doing the same job for 40 years, change is hard and they often don't want to learn new stuff. It's easier to say no than learn something new.*
>
> *Austin Barnes, Vice President, Partnerships, Harbor Life Brokerage*

Many insurers and advisors don't recommend life settlements because it's an unknown area to them. They haven't taken the time to demystify the topic, and so they avoid it.

Resistance among financial advisors to learning about life settlements will change if more clients take the issue to court. That's the approach Larry and Joan Grill took in 2014[30]. The California couple asked their insurance agent for help when their sizable life insurance policies became unaffordable. The agent, representing National Life Insurance Company, failed to disclose the life settlement option and instead recommended a partial surrender.

The lawsuit alleges that National Life Insurance Company directed its agents to conceal the life settlement option from clients. This is not uncommon. Life insurance surrenders are an important source of profits for carriers. If a policy is surrendered, the carrier might pay a small surrender value to the policyholder, but the death benefit is void. If a policy is sold, the carrier retains the obligation to pay the death benefit at some future date.

If carriers continue resisting the growing popularity of life settlements, there will be more lawsuits like Larry Grill et al v. Lincoln National Life Insurance Company.

## 2. Misconception

*Broker-dealers that have decided they won't allow life settlements are inhibiting their financial advisors from giving accurate financial advice.*

*Lucas Siegel, CEO, Harbor Life Settlements*

Among broker-dealers, there's a persistent misconception that life settlements are a legal liability. The misconception that life settlements can lead to lawsuits comes from situations in which they should have been recommended, but weren't. However, firms that don't read into the situation may just associate life settlements with lawsuits, resulting in internal policies that ban their advisors and RIAs from discussing or facilitating life settlements.

With respect to RIAs, this creates a conflict between the RIA's fiduciary responsibility to the client and the broker-dealer's policy.

As shown by the case of Larry Grill and Lincoln National, the policy banning life settlements is legally tenuous. Life settlements have been legal for many years, and they are heavily regulated in most states. This is a scenario where internal policies created due to misconceptions about life settlements are actually what leads to the lawsuits firms are worried about in the first place.

## 3. Lack of enforcement around fiduciary duty

RIAs (who answer to the SEC) have fiduciary responsibility to their clients, which should ideally require them to recommend life settlements when it makes sense. Broker-dealers and financial advisors are under FINRA's watch, but do not have a fiduciary responsibility. Instead, they are subject to Reg BI, which is a lesser standard than fiduciary responsibility.

Despite the regulated standards of care, RIAs, brokers-dealers, and financial advisors often fail to introduce life settlements to their clients when it's appropriate. Due to a jurisdictional gap, there is a legal gray area which convolutes whether this option has to be presented. For example, an RIA may recognize that a life settlement is the best option for their client, but if the broker dealer they work for doesn't allow life settlements — they may be put in a position where they can't recommend it.

These violations may go unnoticed, but even when they are discovered there may be no consequences because what's best for the client could be considered subjective on a case-by-case basis. Furthermore, SEC and FINRA authority only extends over variable life insurance policies, because these are viewed as securities[31, 32].

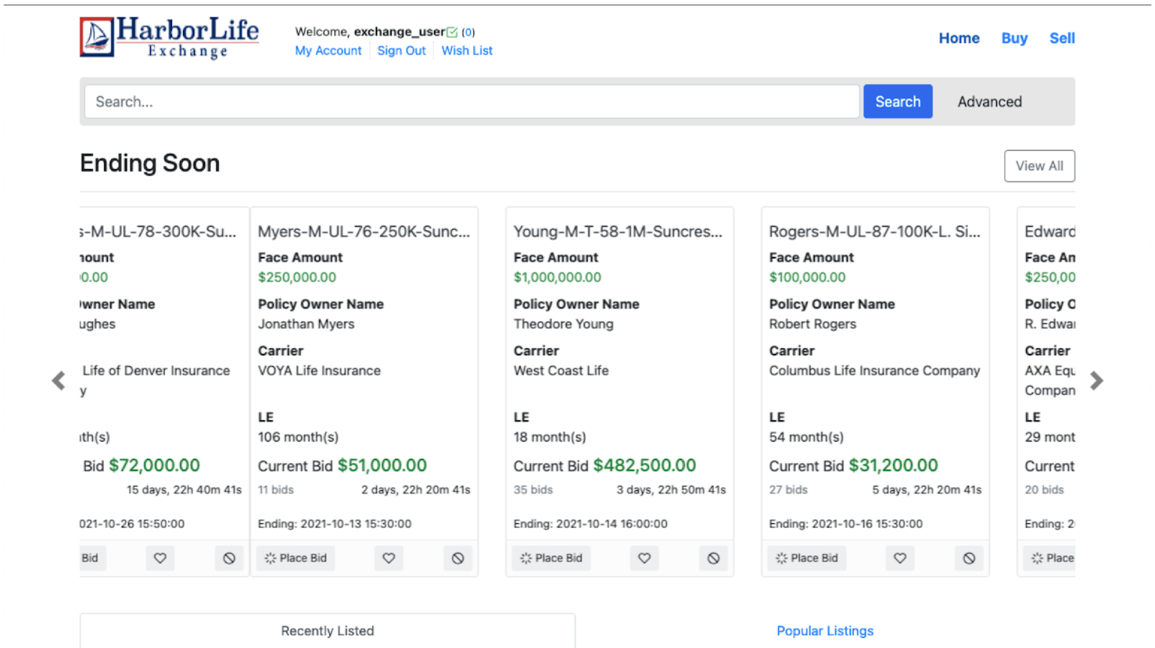
The bottom line is that the two consumer protection watchdogs in the investment industry have no grounds to enforce fiduciary or best interest standards with respect to most life insurance policies.

## 4. Industry reputation

The life settlement industry has a poor reputation, and it's not entirely undeserved. Many life settlement companies withhold details from selling policyholders, including how many buyers considered the policy and how many made offers. A policyholder often doesn't know if the life insurance was presented to one company or eight.

> *There needs to be more transparency and a lot less secrecy in the market.*
>
> *Donna Horowitz, Senior Editor, The Life Settlements Report*

Harbor Life Brokerage's Exchange is the only life settlement auction platform that operates with full transparency. The bidding auction is handled online, where all parties have access to all information pertaining to that case. That way, the policyholder can track how many buyers have seen the policy, how many made offers, and what the value of those offers are.




*Harbor Life Brokerage Auction Platform In Action*

This full transparency model must become standard operating procedure for the life settlement industry to realize its full potential.

## 5. Lack of transparency around insurance premiums

Forecasting premiums is a critical step in assessing a policy's value in a life settlement. Today, those forecasts are an inexact science, because life Insurance companies do not share their data or pricing methodology.

*It's like if the real estate industry disallowed you from understanding what your house was worth, it would make it much harder for someone to sell their house.*

*Lucas Siegel, CEO, Harbor Life Settlements*

The lack of transparency into insurance premiums adds risk for investors, which ultimately works against policyholders. Where there is uncertainty, the buyer lowers the offer to account for the unknown. This is a fundamental concept in any sales transaction, including a life settlement.

## *In order to get the insurance company to provide the information I needed to get an estimate, I had to tell them I would go to the state commission*

*Mark Beedenbender, President, Elite Financial Planning & Wealth Management, Inc.*

The uncertainty of future costs can also lengthen the life settlement process, as buyers spend more time evaluating. A longer process can dissuade the policyholder who needs to liquidate right away. Policyholders who can't get an estimate on the policy's value immediately may turn to other options.

Harbor Life Brokerage has invested in artificial intelligence that predicts insurance premiums so life settlement buyers and sellers can more easily predict their future costs. The technology aggregates one of the world's largest databases of optimized insurance premiums and incorporates predictive analysis to give policyholders, agents, advisors, and investors insight into premiums going forward. The resulting data supports instant quotes on policy value and eases risk for investors while giving sellers a better idea of the costs they'd spend maintaining the policy over time.

## 6. Over-emphasis of death benefit's tax efficiency

Selling policyholders normally pay taxes on part of their life settlement proceeds. Policyholders and advisors often view that taxability as a negative, especially when compared to the tax-free nature of the policy's death benefit. This is an understandable comparison, but not necessarily a fair one.

Often, a life settlement can generate more wealth than the original insurance policy by way of sound investing and avoidance of premiums. The case study on the following page demonstrates this, assuming a 7% projected investment returns with a 20% long-term capital gains tax rate and 40% income tax rate. All of these numbers can be adjusted based on each user's applicable figures.

In this example, the subject is a $1 million life insurance policy, who we estimate would get $322,469 from surrendering their policy, $818,376 from keeping the policy and waiting for the death benefit, or $985,029 from a life settlement.

Surrendering the policy would yield only $100,000 cash surrender value, and while you could invest premiums, the future value ($322,469) pales in comparison to the other options. Holding onto your policy would result in a value of $818,376, because you'd lose $181,624 from the death benefit after paying premiums to keep the policy in force over the rest of your life. By comparison, you could sell the policy for $713,284 ($630,627 after tax), then invest that money and your future premium savings to get $985,029 — the highest future value by far.

**Settlement comparison calculator**

| Projected investment returns | Long-term capital gains tax rate | Income tax rate |
|---|---|---|
| 7% | 20% | 40% |

RESULTS

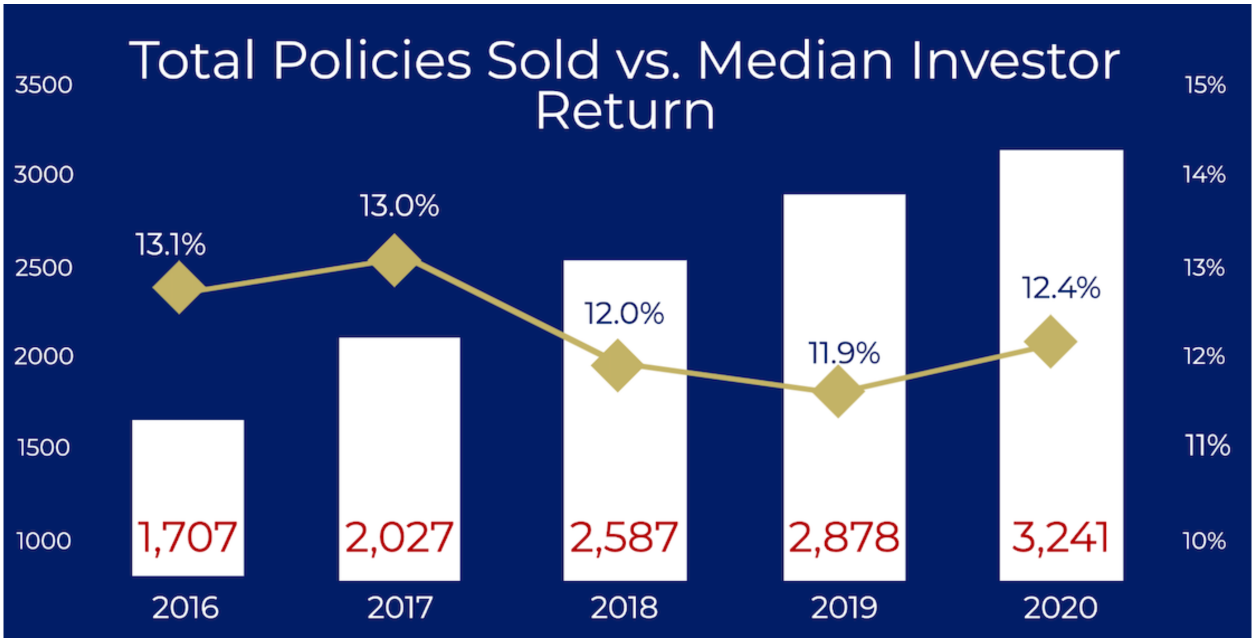
| **Future value of reinvested life settlement** | | **Future value of reinvested surrendered policy** | |
|---|---|---|---|
| Net offer | $ 713,284 | Cash surrender value | $ 100,000 |
| Tax on offer over basis | $ (82,657) | Tax on excess over policy basis | $ 0 |
| Investable proceeds | $ 630,627 | Investable proceeds | $ 100,000 |
| Investable premiums | $ 181,624 | Investable premiums | $ 181,624 |
| Earnings on invested settlement | $ 195,996 | Earnings on invested surrender value | $ 31,080 |
| Earnings on invested premiums | $ 19,976 | Earnings on invested premiums | $ 19,976 |
| Tax on investment income | $ (43,194) | Tax on investment income | $ (10,211) |
| Future value of reinvested life settlement | **$ 985,029** | Future value of surrendered policy | **$ 322,469** |

| **Future value of death benefit** | |
|---|---|
| Death Benefit | $ 1,000,000 |
| Additional premiums | $ (181,624) |
| Future value of death benefit | **$ 818,376** |

Not every case works out this way — but many do. It should be an advisor's obligation to run these scenarios and identify the more lucrative strategy for the client. Our new AI-driven quoting tool can automatically show financial professionals and their clients the pre and post tax implications of a settlement so that families can make the best decision. By using AI to predict future insurance premiums including increases over time, policyholders can save money by selling early instead of sinking money into a policy they may be unable to maintain long-term.

# Despite Headwinds, Life Settlements Are Growing

In 2015, life settlement investors purchased just more than 1,000 policies[33]. As shown in the chart below, life settlement activity has grown steadily, eclipsing 2,000 transactions in 2017 and over 3,000 in 2020.




# Supply of Salable Life Insurance Is Increasing

In the years ahead, the same demographic trends that are putting pressure on Social Security and Medicare will contribute to increased life settlement activity. The aging of the massive Baby Boomer population, combined with insufficient retirement savings should surface more seniors who want to liquidate their life insurance. Research company Conning estimates the gross market potential for life settlements between 2019 and 2028 is approximately $212 billion[1].

The recent spike in inflation is another factor. Inflation degrades the purchasing power of a death benefit. As an example, the policyholder who bought a $150,000 policy in 1991 might find that benefit insufficient today. In 2021, it takes nearly $306,000 to equal the same purchasing power as $150,000 in 1991.

Inflation often goes unnoticed by the public — until it becomes national news, as it has in 2021. Life settlement activity may increase as more people realize the need to hedge against inflation. For reference, at the current 3% annual inflation rate, the price of goods would double within the next 25 years. That is to say, that someone retiring on a fixed income at age 65 would have half the buying power at age 90.

Cashing out a fixed-benefit policy today and investing the proceeds in asset classes that historically outpace inflation, like equities, could be more beneficial than holding onto the policy and collecting the death benefit, surrendering, or selling at a later point.

## Investor Demand is Rising

Economic conditions also have investors looking for alternative assets that are not correlated to the financial markets. The U.S. economy is flush with cash and interest rates are still historically low.

In 2020 and 2021, the U.S. government spent more than $9 trillion on COVID-19 response programs[34]. Actions included $3.6 trillion in purchases of U.S. Treasury and mortgage-backed securities, $1.29 trillion in federal loans, $410 billion in tax-based relief to businesses and households, and $815 billion in direct payments to households[33].

*Because of the stimulus pumped into the economy and worry about public markets being overvalued, there have been a lot of investors that have fled to non-correlated assets. This has dropped the IRRs that investors are willing to accept when they buy policies, creating a more favorable opportunity for people that want to sell their policy.*

*Lucas Siegel, CEO, Harbor Life Settlements*

# Importance of Transparency and Self-Regulation in the Life Settlement Process

Mass adoption of life settlements has sweeping implications. It can unlock hidden wealth to ease the retirement crisis and give policyholders more flexibility to refine their wealth strategy to meet changing needs. To realize those benefits, the industry must embrace transparency.

## Regulation

On the regulatory front, Reg BI is not strict enough to uphold the standards the life settlement industry needs.

*Reg BI took a great step in holding financial advisors accountable for their financial recommendations, but it falls short because it only affects securities.*

*The problem is many Americans have their net worth tied to assets that aren't securities. Life settlements are the perfect example, as it is clear cut that many clients would benefit from a life settlement, but financial advisors aren't obligated to recommend them because life settlements don't fall in the strict parameters of Reg BI.*

*Lucas Siegel, CEO, Harbor Life Settlements*

Firms, brokers, and advisors need to fill the shortfalls of Reg BI by self-regulating to ensure the best outcomes for clients. Internal policies for life settlement brokers, for example, should include requirements to show all life settlement cases to at least four buyers and to share all offers with selling policyholders.

Broker-dealers and insurance companies could promote life settlement analysis in cases where the client has excess or unwanted life insurance. It should also be standard practice to regularly evaluate what's more valuable — a policy's death benefit or the future value of invested life settlement proceeds? Ignoring that question is a disservice to clients who rely on their advisors for sound financial strategies.

Policyholders should trust all their advisors, from life settlement brokers to RIAs, to provide them unbiased opinions and individualized solutions. That will help the life settlement industry grow, but it's also the right approach for the broader financial services industry.

## Transparency

Policyholders should have visibility into how many buyers considered their policy, how many offers were made, and the value of each of those offers. Without this visibility, the life settlement industry will never shed its poor reputation.

*Imagine if you hired me to sell your car, and I said I would take it to several potential buyers, but then came back two weeks later and said I can get $20,000 for your car because it's the highest bid from the best buyer.*

*Why would you believe $20,000 is the most you can get if you never actually saw the auction process and you have no idea who I actually took it to?*

*Bill Schatz, Senior Director, Partnerships, Harbor Life Brokerage*

Sadly, unscrupulous life settlement companies routinely withhold this information from policyholders. Some life settlement brokers may pitch the policy to one preferred buyer. Without competition, that buyer can make a lower offer without consequences.

At Harbor Life Brokerage, we hear these stories regularly from our customers. One policyholder worked with a competitor to secure an offer of $95,000. The policyholder declined that sum and approached Harbor Life instead. When we generated a bid on that policy for $385,000, the original life settlement company offered to match it. The policyholder — no longer interested in doing business with the first company — completed the life settlement through Harbor Life instead.

These scenarios create bad word-of-mouth for specific companies but also the entire life settlement industry. The problem may resolve itself over time, however, as policyholders will gravitate towards the companies that do prioritize transparency.

## The Bottom-Line Argument

Those who resist transparency in life settlements cite the negative impact on margins. Certainly, buying an asset for $95,000 instead of $385,000 is beneficial to the bottom line in the short-term. Long-term, however, the veiled approach is counterproductive.

> *There's a question of whether businesses should try to get 100 deals where they make a large margin on each policy, or if they should aim for 10,000 deals with lower margins but higher scale. Businesses so far have operated under the umbrella that they'd rather make more money on less cases, but it's holding the industry back from what it could be.*

*Lucas Siegel, CEO, Harbor Life Settlements*

According to the Conning report, 61% of policyholders who had lapsed or surrendered life insurance said they were not interested in a life settlement. Those policyholders represent billions in untapped life insurance value — more than enough to support an industry where everyone can profit from lower margins at volume.

That's far more sustainable for the industry vs. a reliance on higher margins secured through shady business practices. As more adopt this perspective, it will become harder and harder for bad actors to poach policies for as little as possible.

> *If there were less fees, more transparency, and greater adoption of life settlements — you could make it a much better industry by preventing direct buyers from poaching deals for as little as possible and instead allowing the market to fully embrace it.*

*Lucas Siegel, CEO, Harbor Life Settlements*

# Looking Ahead

The untapped potential of the life settlement market is staggering, but the industry is standing in its own way. To reach that potential, everyone within the industry must prioritize transparency. That doesn't happen without adoption of policies and standards that provide policyholders with full visibility into their case.

*You need a dedication to transparency across pricing and bids, and you need to have all the biggest buyers competing to bring alignment between buyers and sellers.*

*Lucas Siegel, CEO, Harbor Life Settlements*

Transparency is designed into Harbor Life Brokerage's online auction platform. It's the only system of its kind that provides complete visibility into case details for sellers and buyers.

With that visibility comes a streamlined process. Agents submit cases and Harbor Life collects documentation and compiles the case file. More than a dozen licensed providers are invited to bid on listed cases, and everyone has access to the same set of information. Agents and sellers can then watch the activity on their case in real-time.

*We will show you the bidding process including bids that are placed and who won it.*

*Bill Schatz, Senior Director, Partnerships, Harbor Life Brokerage*

The full transparency model has proven successful. Harbor Life's online auction routinely secures life settlement sales prices that are 50% higher than the industry average. Buyers feel more comfortable making higher offers because they trust the information and the process. And sellers have a great (and profitable) experience they can talk about later with family and friends.

*This auction is a decade overdue. It's how this industry is supposed to work.*

*Bill Schatz, Senior Director, Partnerships, Harbor Life Brokerage*

If the life settlement industry can operate with integrity, the broader financial services industry will take notice. It only benefits broker-dealers, RIAs, financial advisors, and even insurance agents to recognize that life insurance is an asset. Like any other financial asset, a life insurance policy should be evaluated regularly. If the value locked in a life insurance policy could be better deployed in some other form, clients have the right to know.

# Future of the Life Settlement Market

With a financial crisis brewing for seniors in the U.S., the elderly need to use their wealth efficiently. No rational-minded person would argue with that conclusion.

And yet, policyholders walk away from $200 billion worth of life insurance every year — often recouping very little (or none) of their cumulative investment in premiums. Worse, many policyholders participate in this waste of wealth under the guidance of an advisor.

Life settlements can redirect lost wealth back into seniors' pockets. That wealth can offset the lack of savings and benefit cutbacks from Social Security and Medicare.

For that to happen, the life settlement industry must solve its biggest flaws, including:

- The time it takes to complete a life settlement
- High fees charged by brokers
- The perception among financial advisors that the life settlement is not a viable financial strategy
- Lack of transparency within the industry
- Absence of equal standards for broker-dealers, financial advisors, and RIAs

Harbor Life Brokerage is pushing for transparency by giving the industry the right technology tools.

Already launched is the Harbor Life Brokerage online auction platform. The platform ensures buyers and sellers get a full, real-time view into what's happening with their cases. Buyers receive consistent information on each policy and sellers are fully apprised of the bids, their values, and the fees being charged.

The Harbor Life Brokerage Exchange modernizes the life settlement process into open, free-market capitalism with full transparency. This is the model for the industry's future. There is no more room for the closed-door, shady deals that have given the industry a bad reputation.

Harbor Life has also developed an instant-quoting system — a blue book of sorts for life insurance. Using artificial intelligence and machine learning, the Harbor Life algorithm can predict future insurance premiums, a key pricing factor, to return a quick and accurate estimate of a policy's value. While similar “life settlement calculators” give a broad range estimate to overpromise and capture leads with enticing unrealistic figures, our My Policy Predictor tool provides a more realistic range that’s up to 89.2% accurate. Furthermore, our algorithm will continue getting more accurate as it’s machine learning capabilities enable it to consider information from new policies that are uploaded each day.

Just as Zillow's algorithms revolutionized real estate, Harbor Life's quoting technology will be the future of life settlements. Sellers can appraise their policies on the fly and investors can better understand their risk. Those outcomes combined will drive more bids and higher sales prices.

Add in the transparent process enabled by the Harbor Life auction platform, and the life settlement industry is finally poised to realize its full potential.

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