



Life Settlements: The Hidden Value of Life Insurance

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Guarantees are based on the claims-paying ability of the insurance company and assume compliance with the product's benefit rules, as applicable.

Case studies are for illustration purposes only. Individual circumstances and results may vary.

DANIEL ZEPLAIN

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Daniel Zeplain brings to Treyled Life Settlements many years of experience focusing on estate planning services and asset protection for his clients. Daniel started in the insurance industry following the sudden passing of his father, Alan Zeplain, who founded Treyled Insurance in 1994. At age 23, Daniel was the youngest principal of a Brokerage General Agency (BGA) in the United States. Presently, Daniel is the President of Treyled Insurance, working with Larry Kachler, another Treyled Life Settlements management team member. Daniel was recognized as one of the youngest members to ever qualify and join the Million Dollar Round Table and has continued to qualify for Top of the Table honors since. Daniel is also a member of the Forum 400, an elite organization comprised of leaders in production and innovation in financial and life insurance services. Membership is restricted to 400 professionals nationwide; however, there are currently only 280 advisors who meet the rigorous qualifying standards, which consists of the top life insurance professionals in the industry. Treyled Insurance primarily works with wealth managers, benefits and property and casualty insurance firms, private equity groups and financial institutions. Treyled Insurance focuses on turnkey, white-glove solutions for advisors ranging from point-of-sale assistance to advanced case design. Daniel attended the University of Georgia, where he graduated with a BBA from the Terry College of Business in 2007.





LARRY M. KACHLER

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Larry brings to the Treyled Life Settlements team over 40 years of experience in the insurance industry, specializing in the employee benefits and life insurance markets. Presently, Larry is the CEO of Treyled Insurance, working with Daniel Zeplain, another Treyled Life Settlements management team member. Prior to joining Treyled Insurance, Larry was the Regional CEO of Employee Benefits for USI Southwest, the 3rd largest privately held insurance brokerage firm in the United States. Prior to that, Larry was CEO of Plumhoff & Associates, Inc., a regional employee benefits firm providing health and welfare planning, as well as executive benefits to over 100 companies, both public and private. Larry has provided consulting services to multiple companies, including HCC Insurance Holdings (NYSE HCC). HCC Insurance Holdings acquired The Kachler Corporation in 1998 of which Larry was Founder, Chairman, President and majority shareholder. Larry was responsible for growing the Kachler Corporation organically and integrating multiple acquisitions into the firm. Larry started in the insurance industry with New York Life Insurance Company as an agent. He achieved numerous industry awards and recognitions, including Agent of the Year Emeritus, Council Vice President and Council President. Larry was also a founding shareholder and initial Board Member of NYLARC Holding Company and New York Life Agents Reinsurance Company in addition to being a Charter Stockholder of Partners Marketing Group.



CLAY GIBSON

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Clay joins Treyled Life Settlements from Vida Capital and Magna Life Settlements, where he had over ten years of comprehensive life settlement experience and has built up a vast amount of knowledge in the longevity and mortality marketplace, evaluating, pricing and analyzing insurance-linked securities risk. As Managing Director, Clay was instrumental in building Vida Capital into the largest vertically integrated platform in the life settlement space. At its height in 2020, Vida Capital had over \$6.0 billion in assets under management across the different closed-end and open-end funds. As Senior Vice President of Magna Life Settlements, a life settlement provider wholly owned by Vida Capital, Clay was dedicated to growing the origination platform and educating consumers and advisors about life settlements. During Clay's time at Magna, the provider experienced over 180% year-over-year growth in the direct channels and has been in the top three secondary market purchasers over the last three years he was there. Before joining Vida Capital and Magna, Clay was the Portfolio Manager for Rust Group and Life Assets Trust S.A., where he facilitated the acquisition, warehousing and sales for a \$725 million life settlement portfolio. Prior to working in life settlements, Clay became the Senior Analyst for Osage Energy Fund, L.P., a hedge fund focused on investing in energy-related master limited partnerships (MLP) and Canadian trusts (C.T.). Clay graduated from Baylor University with a BBA in Business Entrepreneurship and Corporate Communications and earned an MBA in Entrepreneurship from Acton School of Business.

TAMA BROOKS KLOSEK

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Tama joins Treyled Life Settlements as a practicing trust and estates attorney with 21 years of experience. Tama's legal tax practice focuses on both the domestic and international aspects of estate planning and family wealth transfer and tax-exempt organizations. Tama began her legal career with Vinson & Elkins in the Probate, Trusts & Estates Group of the Tax Section. After almost ten years at Vinson & Elkins, Tama continued her legal practice with Klosek Howes LLP and formed Klosek & Associates PLLC in June 2013. Tama has developed extensive experience in income, nonprofit (including private foundations), estate, gift, trust and generation-skipping transfer taxation and marital property planning. Tama has used life insurance extensively in her practice which focuses on advising high net worth and ultra high net worth clients. Tama is a graduate of Harvard Law School and earned her undergraduate degree in Economics with honors from Columbia University. Tama is Board Certified in Estate Planning and Probate Law by the Texas Board of Legal Specialization and has been widely recognized in Houston and in the State of Texas by her peers and her clients as an outstanding attorney in her field. Tama has received a Chambers Ranking for High Net Worth—Private Wealth Law in Texas. Tama has many local and regional professional affiliations and has presented seminars on a range of topics related to her area of expertise to numerous groups in Houston, Texas and nationally.

Discussion Outline

Life Settlements

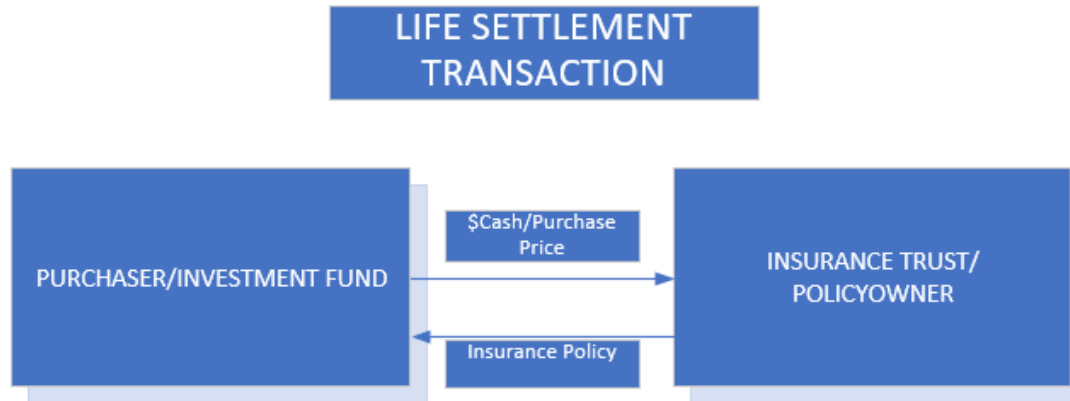
- What are Life Settlements?
- What is the Opportunity?
- Tax Treatment of Life Settlements and Timing
- Our Process
- How Can a Life Settlement Assist your Client?
- Private Wealth Client Case Study
- Other Case Studies

Concluding Thoughts

What are Life Settlements?

- ▶ Most advisors, insureds and policyholders do not know that life insurance is property that can be sold (*Grigsby v. Russell*, 222 U.S. 149 (1911))
- ▶ Historically, the owner of a life insurance policy that was no longer needed, desired or advisable had two options: (1) to let the policy lapse or (2) surrender it to the insurer for its cash surrender value
- ▶ The secondary market for existing life insurance policies provides a third alternative that most advisors and clients are unaware of: (3) to sell the policy to a third party for less than the expected death benefit but more than the cash surrender value
- ▶ The value of a particular life settlement depends on various factors, including the insured's life expectancy and the nature and terms of the policy

What are Life Settlements?



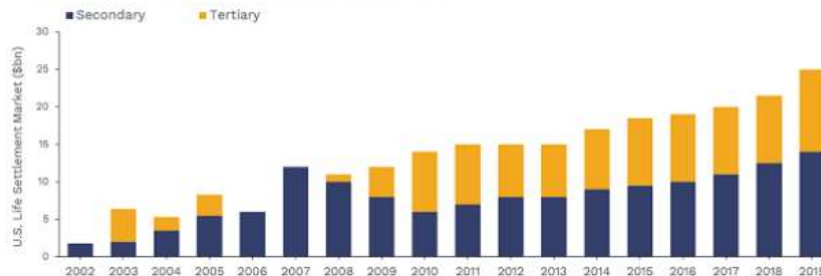
- ▶ At the close of a life settlement transaction, the investor/purchaser owns the policy and all rights to the death benefit and pays all future premium payments
- ▶ The policyholder receives a lump sum payment that can be used for any purpose—including investment in other assets that may yield a higher return than continued investment in the insurance contract

What is the Opportunity?

- ▶ The life settlement market has evolved and is a vibrant market backed by multi-billion dollar investment funds and these funds require policies to generate returns
 - ▶ Largest purchasers—Coventry (over 40% of all transactions in 2020—spend \$30M plus on DTC advertising); Coventry is a buyer but is not always an investor and sells policies purchased to investment funds in the tertiary market
 - ▶ Other investment funds are backed by Apollo, KKR, Blackstone, TPG, Vida Capital, Stone Point, McKinsey & Co.
 - ▶ Market is projected to reach a volume of \$60B by 2025

Growth Of The Life Settlements Market

The market is projected to reach a volume of \$60B in 2025.



Source: Carlisle Management Company Internal Data as of 12/31/2019

What is the Opportunity?

- ▶ Life settlements are as seller friendly as they have ever been:
 - ▶ Tax law changes clarified that a seller's cost basis in a life insurance policy is the aggregate premiums paid without reduction for costs of insurance (I.R.C. §1016(a)(1)(B); see also Rev. Rul. 2020-5 (modifying Rev. Rul. 2009-13))
 - ▶ Some clients no longer require insurance with increase in estate tax exemption and success of other wealth transfer strategies
 - ▶ Increased competition in the settlement marketplace increases value to sellers
 - ▶ Regulations in 43 of the 50 United States
 - ▶ Prolonged low interest rate environment allows investors to pay more for policies
 - ▶ London Business School (2013) study concluded life settlements pay more than 4 times on average than the cash surrender value
- ▶ Conning study (2018) determined that \$200 billion worth of life insurance is allowed to surrender or lapse annually which results in an estimated \$37.5 billion in lost wealth—lapses occur because most people do not know there is an option to sell their life insurance

Tax Treatment of Life Settlements and Timing

- ▶ To the extent the amount received in a life settlement is in excess of the aggregate premiums paid less amounts received, the policy seller will have taxable gain
- ▶ The gain will be long term capital gain income unless the cash surrender value is in excess of the premiums paid less amounts received, in which case only that difference would be ordinary income (I.R.C. §1016(a)(1)(B); Rev. Rul. 2020-5 (modifying Rev. Rul. 2009-13))
- ▶ If properly conducted, transactions can close within 60 days

Our Process

- ▶ Policy Pre-Pricing- the most important part of the entire process to manage client expectations
- ▶ Request necessary in-force illustrations
- ▶ Have client complete Treyled Life Settlement Application
- ▶ Compile all client medical records
- ▶ Order Life Expectancy Reports
- ▶ Send case out to market
- ▶ Case is shopped using an auction format to extract every last dollar of value on the open market
- ▶ Work with the Buyer to expedite closing documents
- ▶ Our fees have averaged 40% less than current market fees

Private Wealth Client Case Study

- ▶ Client had an underfunded universal life policy held in trust that was not guaranteed to provide coverage past age 85 without significant premium increases
- ▶ Client had concerns about continuing to make gifts, and cash value was going to be consumed in the near term to cover increased costs of insurance
- ▶ The amount required to guarantee the insurance to age 100 was \$224,000, and the client had been paying annual premiums of \$75,000
- ▶ Policy Summary:

Total Face Amount: \$10,000,000
Death Benefit Option: Level
Premium Class: Class 1 (Preferred Nonsmoker)
Annual Premium: \$75,000.00
Total Premiums Paid: \$1,705,000.00
Accumulated Value: \$1,201,398.14
Cash Surrender Value: \$1,201,398.14

Private Wealth Client Case Study

GUARANTEED 4.50% Interest Rate Maximum Charges					
Yr	End of Yr Age	Premium Outlay	Accumulated Value	Cash Surrender Value	Net Death Benefit
22	77	0.00	1,148,389	1,148,389	10,000,000
23	78	75,000.00	823,299	823,299	10,000,000
24	79	75,000.00	412,662	412,662	10,000,000
25	80	<u>75,000.00</u>	0	0	10,000,000
		225,000.00			
26	81	75,000.00	0	0	10,000,000
27	82	75,000.00	0	0	10,000,000
28	83	75,000.00	0	0	10,000,000
29	84	75,000.00	0	0	10,000,000
30	85	<u>75,000.00</u>	0	0	10,000,000
		600,000.00			
*	31	<u>75,000.00</u>	0	0	0
		675,000.00			

* Year 31, Month 1 (August 2029)

In the event that the guaranteed costs were deducted and the guaranteed interest rate was paid from 5/19/2021 forward, the policy would lapse and cannot be quoted beyond the year shown. Additional premiums would be required to continue the coverage.

Private Wealth Client Case Study

GUARANTEED 4.50% Interest Rate Maximum Charges					
Yr	End of Yr Age	Premium Outlay	Accumulated Value	Cash Surrender Value	Net Death Benefit
22	77	0.00	1,148,389	1,148,389	10,000,000
23	78	223,889.00	969,526	969,526	10,000,000
24	79	223,889.00	720,217	720,217	10,000,000
25	80	<u>223,889.00</u>	385,929	385,929	10,000,000
		671,667.00			
26	81	223,889.00	0	0	10,000,000
27	82	223,889.00	0	0	10,000,000
28	83	223,889.00	0	0	10,000,000
29	84	223,889.00	0	0	10,000,000
30	85	<u>223,889.00</u>	0	0	10,000,000
		1,791,112.00			
31	86	223,889.00	0	0	10,000,000
32	87	223,889.00	0	0	10,000,000
33	88	223,889.00	0	0	10,000,000
34	89	223,889.00	0	0	10,000,000
35	90	<u>223,889.00</u>	0	0	10,000,000
		2,910,557.00			
36	91	223,889.00	0	0	10,000,000
37	92	223,889.00	0	0	10,000,000
38	93	223,889.00	0	0	10,000,000
39	94	223,889.00	0	0	10,000,000
40	95	<u>223,889.00</u>	0	0	10,000,000
		4,030,002.00			
41	96	223,889.00	0	0	10,000,000
42	97	223,889.00	0	0	10,000,000
43	98	223,889.00	0	0	10,000,000
44	99	223,889.00	0	0	10,000,000
45	100	<u>223,889.00</u>	0	0	10,000,000
		5,149,447.00			

Private Wealth Client Case Study

- ▶ Average life expectancy from multiple reports indicated a 14.8 year life expectancy (50% chance that client would live longer than 14.8 years)—well beyond the potential for lapse
 - ▶ 76% chance that client will live beyond age 85
- ▶ Pre-pricing analysis indicated the policy value would be in excess of the total premiums paid (\$1.7M) and may be significantly higher
 - ▶ Client indicated she would have been happy to receive amount equal to cash value—essentially return of premium

Private Wealth Client Case Study

► Treyled Life Settlements Auction Results:

	Provider 1	Provider 2	Provider 5	Provider 3	Provider 4	Bid IRR	Bid Increase
Bid 1	\$1,512,000					15.24%	
Bid 2		\$2,200,000				11.17%	\$ 688,000
Bid 3				\$2,300,000		10.73%	\$ 100,000
Bid 4	\$2,400,000					10.31%	\$ 100,000
Bid 5					\$2,600,000	9.53%	\$ 200,000
Bid 6			\$2,625,000			9.44%	\$ 25,000
Bid 7		\$2,700,000				9.18%	\$ 75,000
Bid 8	\$2,725,000					9.09%	\$ 25,000
Bid 9			\$2,750,000			9.00%	\$ 25,000
Bid 10	\$2,775,000					8.92%	\$ 25,000
Bid 11		\$2,850,000				8.67%	\$ 75,000
Bid 12			\$2,875,000			8.59%	\$ 25,000
Bid 13	\$2,885,000					8.56%	\$ 10,000
Bid 14		\$2,913,000				8.47%	\$ 28,000
Bid 15	\$3,015,000					8.15%	\$ 102,000

How Can a Life Settlement Assist your Client?

- ▶ Life settlements can provide an immediate increase in liquidity to the policyholder and avoid a policy lapse for insurance that cannot or will no longer be maintained
- ▶ Trustees have fiduciary duties and may not be aware that if a donor does not wish to continue to make premium payments there is an option for a settlement to preserve value
 - ▶ Life settlement is an important option for all trustees, including corporate trustees, to understand
 - ▶ Proceeds from sales of policies held in trust continue to be held for the benefit of desired beneficiaries
 - ▶ Grantor pays income taxes for policies held in grantor trusts

How Can a Life Settlement Assist your Client?

- ▶ What polices are suitable for a life settlement?
 - ▶ Individual and second-to-die universal life, indexed universal life, variable universal life and convertible term life insurance policies typically qualify for life settlements and the insured should be over 70 or under 70 with impairment
- ▶ “Healthy Fund” option presents opportunity for healthy insureds to sell policies
 - ▶ Fund purchases policy and an annuity for amount equal to the difference between death benefit and purchase price—receives entire capital contributed upon death and return equal to the difference between annuity and premium payment during life of insured

Additional Case Studies

Example 1: **JERRY, age 80**

Type of policy: Survivorship Universal Life-One Insured Deceased

Policy Face Value: \$15,000,000

Cash Surrender Value: \$546,000

Summary: A policyowner no longer required the coverage, and the cost of the policy premiums was increasing significantly. The policy was trust owned. The trustee saw a television add from a national life settlement provider and called the provider directly with the intention of negotiating a maximum purchase price offer. After approximately one month of direct negotiations with that life settlement provider, the trustee received a maximum offer of \$1,850,000 from the life settlement provider. Prior to entering into the life settlement transaction, the policyowner was referred to Treyled Life Settlements for a second valuation opinion on the policy purchase price. Treyled Life Settlements was then engaged to represent the policy seller. The opening offer received by Treyled Life Settlements was \$2,700,000 – nearly \$1,000,000 more than the offer previously received directly from the life settlement provider.

Final Gross Offer Received and Paid: \$6,805,000

Additional Case Studies

Example 2: **SIMON, age 75**

Type of policy: Indexed Universal Life

Policy Face Value: \$10,000,000

Cash Surrender Value: \$1,378,000

Summary: A policyowner had premium financed an aggressively illustrated Indexed Universal Life policy, and the policy had not performed as projected. In connection with the premium financing, the policyowner had provided a secured note to the lender for \$2,411,000 that scheduled to mature within 30 days, meaning the client was going to have to pay about \$1,000,000 out of pocket to the lender or risk losing a valuable income producing family-owned property that was posted as the collateral. At that time, the policyowner could not afford the additional \$1,000,000 in cash required to repay the amount due under the note. The policyowner engaged Treyled Life Settlements to sell the contract and to help minimize the client's out of pocket expense on unwinding the contract. After the Treyled began the auction process, the policyowner not only was able to repay the outstanding note in its entirety but also made a significant profit on the sale. The opening offer received was \$2,200,000.

Final Gross Offer Received and Paid: \$4,051,000

Additional Case Studies

Example 3: **SARAH, age 79**

Type of policy: Guaranteed Universal Life

Policy Face Value: \$855,000

Cash Surrender Value: \$131,000

Summary: A policyowner was in great health and did not want or need the life insurance coverage any longer, and she was simply planning on surrendering the contract for the \$131,000 cash surrender value. The policyowner's advisor informed her that she may be able to sell the policy for more than the cash surrender value. Treyled Life Settlements received an opening offer of \$228,000.

Final Gross Offer Received and Paid: \$375,000

Example 4: **RON, age 66**

Type of policy: Convertible Term

Policy Face Value: \$1,500,000

Cash Surrender Value: \$0

Summary: The client's term policy was about to expire, and the policy needed to be converted to permanent or it would lapse with no value. The conversion premium was \$98,000 per year, and the client did not wish to pay the increased cost. The case was "shopped" by another broker, and the maximum offer negotiated was \$200,000. The client was referred to Treyled Life Settlements for another opinion. After completion of the TLS auction process, the client received more than double the maximum offer negotiated by the prior broker.

Final Offer Received and Paid: \$495,000

Concluding Thoughts

- ▶ Studies have found that an estimated 88% of all universal life insurance policies issued lapse before paying a claim
 - ▶ A staggering amount of premium dollars are wasted
- ▶ Private wealth advisors may be able to access additional liquidity for their clients and avoid ongoing outflows of assets to fund insurance that may no longer yield an optimal result
 - ▶ By becoming more informed regarding a client's life insurance and working with other advisors both internal and external, advisors can coordinate policy audits and obtain pre-pricing estimates for policies that may be a candidate for a settlement
- ▶ To date in 2021, Treyled has worked to settle policies with a total death benefit of \$67.3 million and a return of \$22.1M to the policyowners
 - ▶ None of these insureds were “viatical”; clients are wealthy individuals looking to exit insurance contract on favorable terms

Concluding Thoughts

- ▶ Not every policy is a candidate for a life settlement
- ▶ A policy auction process conducted by a knowledgeable team creates real competition in the market and yields better pricing than a direct sale to a purchaser
 - ▶ The purchaser always wants to pay less and the client is not educated about the value of the policy
 - ▶ The direct purchaser's interests are NOT aligned with the clients
 - ▶ There is no incentive to offer best pricing without market competition