

Private Client Group: Policy Settlement Case

The Situation:

A large Private Client Group (Group) was hired to manage the affairs and money of a prominent family after they sold their successful company. After being hired, the law firm who was working with the family on their legal and estate planning needs approached the Group with concerns about the life insurance trusts currently in place. The lawyers of the client were the trustees of two irrevocable life insurance trusts. Each trust held several large life insurance policies totaling about \$40,000,000.

The insurance agent had recommended to the family a concept which involved the purchase of large amounts of life insurance with the intent to sell all or some of the policies at a later date. The concept was heartily endorsed by the family at the time, but the family's legal team now had concerns. The legal team was having significant concerns about the viability of the original plan to sell the policies. They were also worried about their responsibility as trustees to make the best decision possible regarding the ongoing management of the life insurance trusts. The Group, with support from the law firm, turned to us to provide the actuarial diagnosis of what was possible, and even optimal for the management of all of the life insurance in question.

Details of the Case:

- The insured was now 83 years old.
- Seven policies were sold totaling \$40MM of life insurance
- All seven policies were Universal Life (interest rate sensitive)
- The Life Settlement market had become very limited due to the economic and financial crisis and the market's mispricing of the recent past
- The Trustees were concerned about their duty as trustee as outlined in the Uniform Prudent Investors Act
- The Trustees wanted to document their file to show proper policy analysis in order to justify any decisions
- The Trustees are unsure whether they should keep, settle or surrender the policies The Agent has lost his license to practice recently due to the improper selling of such arrangements

Action Steps:

- The following actuarial studies were completed by our team:
 - Relative Value report for each contract ("NPV Study"): estimates of the sale price
 - A personalized, actuarially certified Actuarial Longevity Analysis (ALA) report to determine longevity probability to multiple ages
 - Life Settlement report – an analysis of the probability of a sale based on current market conditions and Relative Value Report
- These reports provided the trustees with the necessary information to determine the viability of selling the policies and each policy's rate of return expectation
- Information about how to implement the settlement transaction (if viable) was also provided

Case Summary:

- Based on our longevity study we recommended keeping the life insurance
 - The Actuarial Longevity Analysis (ALA) determined that the life expectancy at an 85% probability was 11yrs. providing quite an impressive rate of return with a high probability
- We discovered when we approached the life settlement market that the current agent “tainted” this option due to the fact he had gone to the life settlement market before the contestability clause had expired and this caused the loss of a viable offer from the secondary market
- Trustees were supplied all the necessary documentation and proper property management data to approach the beneficiaries in order for decisions to be made in regards to whether the insurance property should be kept or surrendered
- The family due to various reasons kept half of the life insurance