




# Advanced Planning Applications for Market-Based Life Insurance Valuations



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Ashar Group/Ashar SMV

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*Trust & Estates*

*Society of Financial Service Professionals (FSP)*

*Estate Planning Magazine*

*NAEPC*

*AICPA*


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*AALU*

*Harvard Business School*

*Columbia Business School*

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**LIFE SETTLEMENTS**  
**POLICY APPRAISALS**

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## WHICH POLICY IS WORTH MORE TODAY?

Two identical \$1M policies with the exact same rating, premium, and cash value

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This slide features a blue header with a white circle containing the number "4". Below the header, the text "WHICH POLICY IS WORTH MORE TODAY?" is displayed in white. Underneath, a line of text reads "Two identical \$1M policies with the exact same rating, premium, and cash value". Below this text are two identical dark blue document icons with white horizontal lines. In the bottom right corner, there is a logo for "ashar group" and the text "LIFE SETTLEMENTS POLICY APPRAISALS". At the bottom left, there is a small copyright notice: "© Ashar Group. All Rights Reserved. For Internal Use Only."

## "WILLING BUYERS" CHANGE VALUATION METHODOLOGY

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### IRS Definition of Fair Market Value:

"the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts."

Treasury Regulations Sections 20.2031-1 and 25.2512-1; Revenue Ruling 59-60.

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## WHAT HAS THE MOST IMPACT?

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Documented YES



Documented NO



OR

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# 2012 – ASHAR GROUP DEVELOPS NEW VALUATION METHODOLOGY

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## The Ashar Secondary Market Valuation (SMV®)

- Based on willing buyer/willing seller principles
- Mark-to-market; real-time comparative data
- Individualized longevity analysis on insured

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## T&E MAGAZINE – SPECIAL VALUATION SECTION February 2018



By Jason T. Mendelsohn

### “Willing Buyers” Change the Face of Life Insurance Valuations

Seniors will benefit the most

The new tax law increasing estate tax exemptions is one in a series of recent changes that are impacting seniors who've previously deployed life insurance strategies for estate and tax planning. Other factors, which were unforeseen for life insurance policies issued several years ago, are also creating unanticipated consequences for seniors. For example, most wealthy seniors are living longer than they expected and may no longer need their life insurance or are in danger of outliving their coverage. Also, the sustained low interest rate environment we're experiencing has had a devastating effect on the inside cash buildup of many policies. As a result, many insurance carriers are increasing the cost of insurance as much as 200 percent. Outdated tax rules are also hurting senior clients who own universal life (UL) insurance and modern day term insurance and need an alternative valuation for tax planning. If there's a ray of sunshine in all of this, it's the coming of age of the secondary market for life insurance, the life settlement market. The abundance of qualified institutional life settlement “willing buyers” and client-centric life settlement regulations now opens the door to estate and tax planning solutions that were previously unavailable.

Let's review why life insurance should no longer be considered a hard-to-value asset. I'll also explore the life settlement market as it is today, what the market went through to get to this point and potential solutions offered by a market-based

secondary market valuation (SMV) of life insurance. The SMV combines willing buyer/willing seller data with longevity-based medical underwriting that includes a customized life expectancy analysis and real-time market feedback to produce a reliable valuation for tax practitioners, estate planners, irrevocable life insurance trust (ILIT) trustees and other planners and fiduciaries in need of a more precise valuation of fair market value (FMV) for planning purposes.

“Willing Buyers” and FMV  
What's FMV? In layman's terms, it's defined as how much someone will pay for property such as a home, car, jewelry, collectibles and other items to become the owner of that property. Sellers can get an idea of the present value of their car from *Kelley Blue Book* and a number of other sources. The present value for houses can be determined by getting a property appraisal from a realtor who uses data from recent sales of comparable houses in the seller's area. The common element in these present value estimates is the use of real-time comparison data from the current markets that reflect what willing buyers are currently paying for said property.

In recent years, the growth of the life settlement industry has helped establish life insurance as an asset class. Determination of FMV for life insurance has always been confusing, especially for UL and term insurance policies that have been the cornerstone of estate and tax planning since their inception in 1979. Planners are becoming more accustomed to viewing life insurance as property and are taking cues from Internal Revenue Service regulations to determine property value. For tax purposes, the value of property is generally

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V28 TRULY E & DEATHS / trustandestates.com FEBRUARY 2018

“ Planners and fiduciaries need to be prepared to protect client best interests by having reliable valuation data for their clients. ”

“ An individualized longevity analysis is the key to unlocking a policy's true FMV. ”

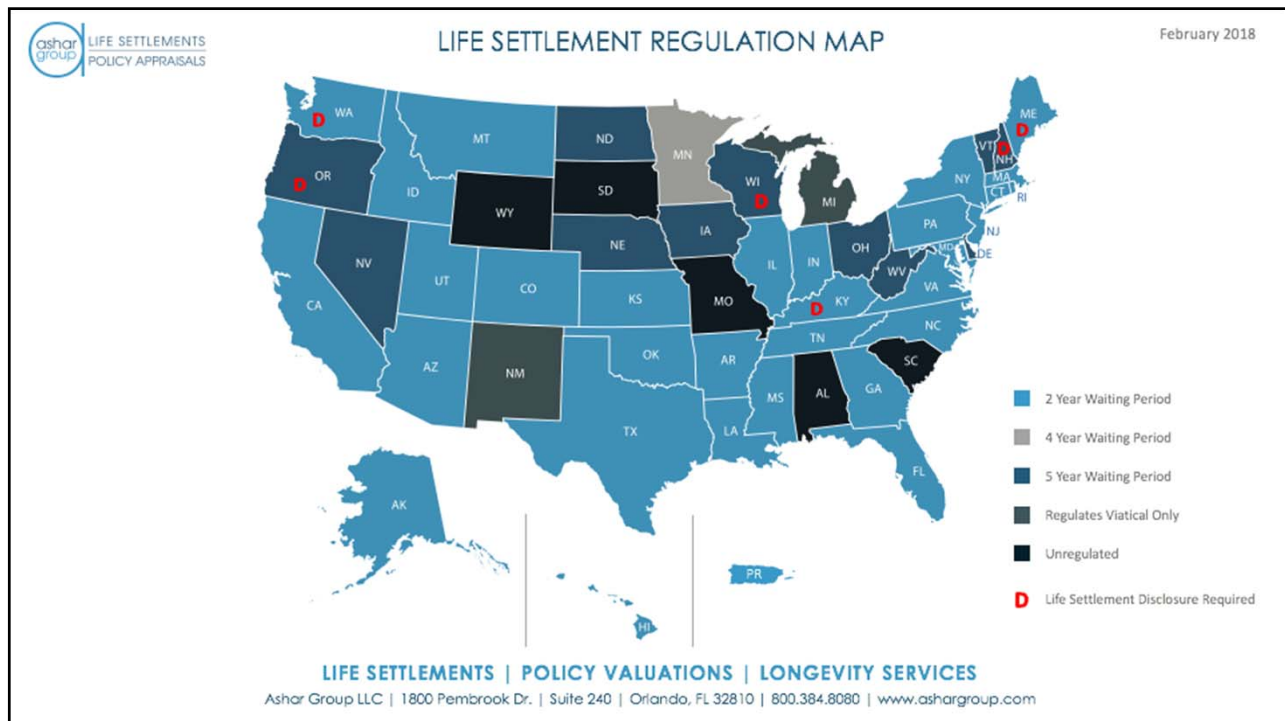
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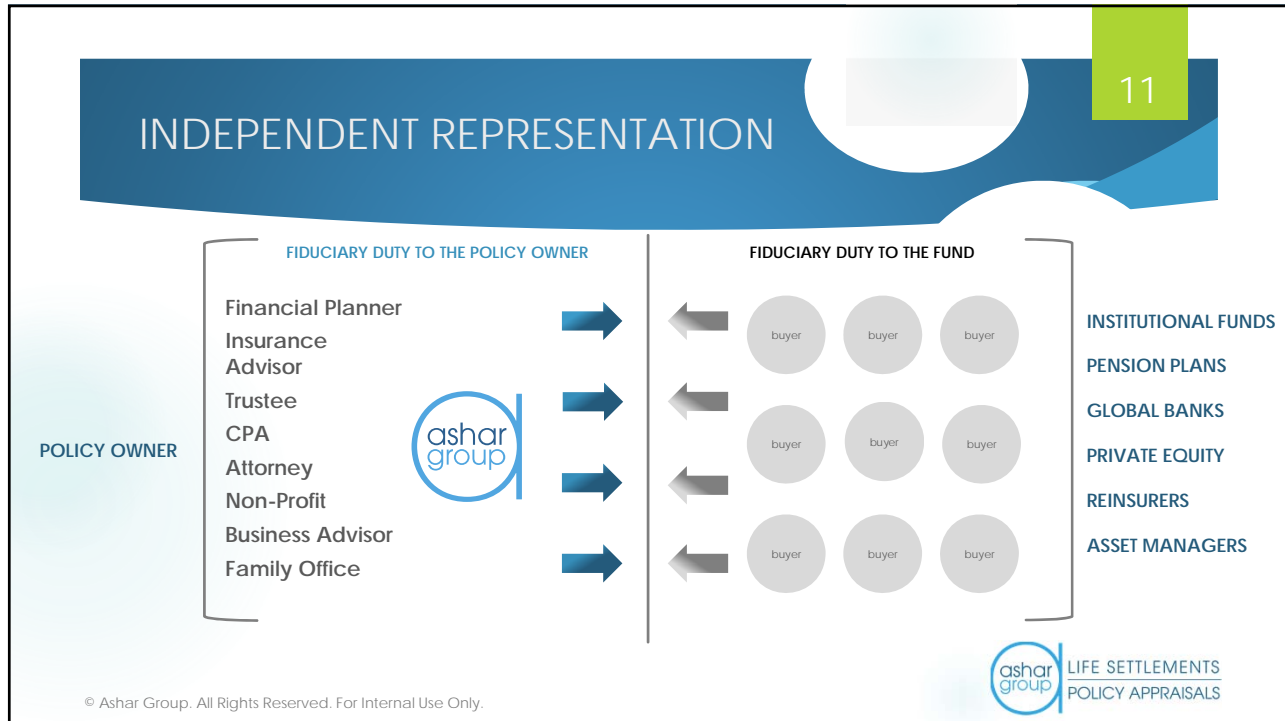
“ IRS valuation conventions are by design, **health agnostic**. It is now possible to use a market-based valuation process, which uses data and comparables from the current **willing-buyer, willing-seller** secondary market, to determine the fair market value of a policy. ”

LAWRENCE BRODY, ESQ.

Policy Valuation and Transfer Tax Conventions vs Market-Based Valuations  
 NAEPC White Paper, Lawrence Brody, ESQ. and Jon B. Mendelsohn  
 November 17, 2016

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## WHAT IS A LIFE SETTLEMENT?

A life settlement is the sale of a life insurance policy to a third party for a value in excess of the policy’s cash surrender value, but less than its face value, or death benefit.

A policy owner receives a cash payment, while the purchaser of the policy assumes all future premium payments and receives the death benefit upon the death of the insured.

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**80% of universal life insurance policies  
never pay a death benefit**

**An even higher percentage of term  
insurance policies never pay a death benefit**


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**\$22B in unrecovered life insurance asset  
value is left on the table every year**

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There are currently **53,000 centenarians** living in United States, and that number will increase to 757,000 by the year 2045



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**ESTATE PLANNING**

**Longevity Throws a Wild Card in Even the Best-Laid Plans**

May 2017

**EDITOR'S COMMENTS**

May 2017  
By J. Patrick, MBA, CLU, ChFC, AEP  
In this issue of Estate Planning, we feature an intriguing article by James L. Mansbacher of the Ashar Group/Arthur LLP in Chicago, Florida. It deals with the separate but interrelated topics of mortality risk and a controlled life expectancy annuity. Mortality risk will be able to help that client make risk course adjustments to minimize potential damage.


**Many Disruptive Changes Have Caused Senior Plans to Go Awry**

Many senior clients have had their plans disrupted by changes totally outside of their control. It wasn't supposed to happen, but it did. Volatile stock markets, plummeting real estate values, a prolonged low interest rate environment, and underperforming investment policies all have had a negative impact on wealth planning. Many other clients could be told about how the combination of disruptive events has affected the basis of assets in their retirement plans as well as their age-progressive retirement. Senior estate and business advisors have forward-thinking advisors have been making adjustments along the way to help minimize the damage.

## Longevity Throws a Wild Card in Even the Best-Laid Plans

“How do you create a valid plan if you don’t know how long you’re planning for?”

Mortality Risk vs. Longevity Risk



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## The Difference in Underwriting

**Mortality Risk**

**Longevity Risk**

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### ESTATE PLANNING

- Death Benefit: \$4M
- SUL – female deceased
- Premium increase to \$275k/yr
- Needs have changed
- Surrender: \$109K

**Client benefit: \$1.55M**

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## COMPETITIVE BIDDING = FMV

Death Benefit = \$4M  
CSV = \$109,088

		1 <sup>st</sup> Round Bidding	2 <sup>nd</sup> Round Bidding	3 <sup>rd</sup> Round Bidding	Final Bid
Buyer 1	Offer	\$411,000			\$411,000
Buyer 2	Offer	\$800,000	\$1,100,000	\$1,320,000	\$1,320,000
Buyer 3	Decline				
Buyer 4	Offer	\$1,000,000	\$1,250,000	\$1,355,000	\$1,355,000
Buyer 5	Offer	\$850,000	\$950,000	\$1,025,000	\$1,120,000
<b>Buyer 6</b>	<b>ACCEPTED</b>	<b>\$1,075,000</b>	<b>\$1,315,000</b>	<b>\$1,500,000</b>	<b>\$1,550,000</b>
Buyer 7	Offer	\$1,040,000	\$1,085,000	\$1,100,000	\$1,100,000
Buyer 8	Offer	\$725,000	\$890,000	\$920,000	\$920,000
Buyer 9	Offer	\$875,000	\$900,000	\$910,000	\$910,000
Buyer 10	Decline				
Buyer 11	Decline				
Buyer 12	Offer	\$480,000	\$502,500		\$502,500

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## BUSINESS PLANNING

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- 4 policies totaling \$12M
- No longer needed
- Very tight timeframes
- Strong contact at carrier
- **Client Benefit: \$2.85M**

M&A firm unaware of the secondary market

Calculated and strategic approach to the market

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## WEALTH MANAGEMENT

- Death Benefit: \$750k
- Convertible term policy
- About to surrender
- Premiums a burden
- Surrender: \$0
- **Client benefit: \$195K**

Don't just lapse  
term insurance.  
It can have value.

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## CHARITABLE PLANNING

- Two policies totaling \$1.5M
- Donor outliving gift
- Started with SMV®
- Donor sees gift in action
- **Client Benefit: \$527K**

Foundation turns  
gift into cash  
for today's needs

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## FINANCIAL PLANNING

- Death Benefit: \$1M
- Trust-owned
- Had not been reviewed in years
- Surrender: \$34K


### Client benefit: \$125K



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## WHO IS THE IDEAL CLIENT?

POLICY	HEALTH
<ul style="list-style-type: none"> <li>▪ UL, GUL, SUL, Convertible Term</li> </ul>	<ul style="list-style-type: none"> <li>▪ Insured age 65 or older</li> </ul>
<ul style="list-style-type: none"> <li>▪ Typically: \$100K – \$5M</li> </ul>	<ul style="list-style-type: none"> <li>▪ Younger if highly impaired</li> </ul>
<ul style="list-style-type: none"> <li>▪ Jumbo Policies: \$5M – \$50M</li> </ul>	<ul style="list-style-type: none"> <li>▪ Policies issues at standard or preferred</li> </ul>
<ul style="list-style-type: none"> <li>▪ Low cash value and low premiums</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decline in health since issue</li> </ul>
<ul style="list-style-type: none"> <li>▪ Policy matures at age 100 or beyond</li> </ul>	<ul style="list-style-type: none"> <li>▪ Longevity: 15 years +/-</li> </ul>



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## POLICY VALUE QUIZ

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This **7-question** screening tool will help you determine if a life insurance policy may qualify for a Secondary Market Solution.

At the end of the questionnaire you will receive a total score and the probability of qualification.



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## ASHAR PROCESS

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OPPORTUNITY OR LIABILITY?



**BREAKING NEWS**

Tax Cuts and Jobs Acts of 2017

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Estate Tax Exemption  
Improved Tax Treatment



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Have you had your life insurance policy appraised?



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# Stay Connected:



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