Managing Life Insurance as a Liquid Investment Asset

By Michael Krasnerman and Grace Bronstein

Policy owners and trustees are often unaware of the extent that their life insurance policies can operate as investments and tools of liquidity. Life insurance policies should be viewed as assets that owners can borrow against or re-finance. However, traditional lenders extend credit based on the Cash Surrender Value ("CSV") of life insurance, resulting in inadequate loans that often require outside collateral. AllFinancial Group ("AFG") extends credit based on the fair market value of the future death benefit of the policy, providing policy owners with materially superior economics and removing the need for additional collateral. This key distinction allows AFG to provide a wider array of financing options than traditional lenders, and more attractive means of liquidity and leverage to clients of wealth managers and estate planners.

Currently, when the owner of a life insurance policy seeks to sell the policy, whether for additional liquidity or other financial reasons, he or she faces two options. The first option is to surrender the policy to the life insurance company that issued it in exchange for its CSV, which is much less than the total premiums paid up to date and reflects the enormous cost of commissions, surrender charges, cost of insurance charges, and many other fees charged by insurance companies. The CSV has no correlation to the face value of the policy, and in the majority of Universal Life policies, amounts to less than 5% of the death benefit. The second option is to sell it on the life settlement market, in which the seller typically receives a price much higher than the CSV. This price is tempered by the number of intermediaries involved and the buyer's drive for a high rate of return, as buyers are frequently seasoned investors. In a classic life settlement transaction, the seller of a policy engages a life insurance agent, a life settlement broker, and/or a licensed life settlement provider. This inevitably results in multiple intermediaries' fees that reduce the seller's return.


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Life insurance policy owners who seek **additional liquidity** and wish to **keep their policies** have a third option with AFG:

Option 1 – Surrender
Surrender the policy to the life insurance company for its CSV.

Option 2 - Sell
Sell the policy on the life settlement market and receive a higher price than its CSV, but multiple intermediaries' fees reduce payment to the policy owner.

Option 3 – AFG Transaction
Without selling or surrendering your policy, you can receive credit that provides cash advances, finances premiums, and pays relevant legal and accounting fees – all without any collateral except the policy itself.

AFG has created a third option. We can extend credit that provides cash advances, finances annual premiums, and pays for relevant legal and accounting fees – all without outside collateral. Our line of credit allows policy owners greater financial flexibility and ensures that they keep their policy for their family's benefit. Life insurance policies on which the policyowner has paid several years of premiums should provide a liquidity option similar to home equity loans. When

you buy a house, you can obtain a mortgage based on the present fair market value provided by a third party appraiser to the bank. Similarly, AFG extends credit based the fair market value of the life insurance policy in the future, where we assess the value of all relevant factors, including the death benefit. Determining the fair market value of a life insurance policy is very complicated, because the valuation is based on mortality tables, actuarial science, future interest rates, and management requirements. Factors such as longevity risk and the uncertainty of the date of the insured's death do not allow most investors and financial institutions to offer the transactions we describe.

AFG can extend credit that provides cash advances, finances annual premiums, and pays for relevant legal and accounting fees – all without outside collateral.

To illustrate how AFG's program works, here is an example of the type of transaction we can structure. Let's say that a trust owns a $5 million policy issued by a highly rated insurance company on an insured male in his early 80s, and the CSV on the policy is $250,000. His life expectancy is 10 years, and his annual premium payments are approximately $250,000 per year. If the owner of the policy needs liquidity, he can sell it in the traditional life settlement market and he would receive around $500,000-700,000. Alternatively, he can structure a transaction with us, in which he can receive a $500,000 cash advance borrowed against the death benefit of the policy and borrow $250,000 a year from us in order to pay his annual premiums. If the insured dies within the first five years, his beneficiaries (i.e. his family) would receive the difference between the $5 million death benefit and what he has borrowed up to the date of his death, plus fees and interest. Therefore, the policy owner would receive immediate liquidity, not have the burden and liability of paying enormous premiums, and transfer the longevity risk of the insured living longer than the projected 10 years. This process transfers the owner's longevity risk to us, but allows the owner to keep the policy without depleting funds to pay future premiums.

AFG seeks to work with private wealth advisors, estate planners, and estate attorneys to create better value for their clients. Recently, we worked with Ivan Sachs, the chair of the estate planning practice at Withers Worldwide, in his capacity as a trustee for a Survivorship policy held in a trust, and the financial advisor Rick Campbell.

On behalf of their client, they reached out to AFG to receive a line of credit on a policy rather than sell it for a steep discount in the life settlement market. We provided them with a substantial cash advance and credit to pay future premiums, thereby ensuring that their client maintained a portion of death benefit for his family while maintaining a level of personal liquidity. Campbell noted that "AllFinancial Group was extremely flexible and creative in unlocking value for our client." AFG can do the same for others seeking to better manage their clients' financial futures. Sachs and Campbell analyzed all other available alternatives – surrendering the policy for its CSV, selling it on the traditional life settlement market, or receiving limited bank financing – and chose what created the most value for their client: a unique hybrid of non-traditional premium financing via credit facility and life settlement transaction.

AFG also offers a Policy Management Report that provides critical information that may reduce premiums and other expenses. The Report includes mortality underwriting, life expectancy projections, explanations of potential Cost of Insurance increases, the fair market value of your policy, and a summary of special riders applicable to your policy. These factors are crucial to managing policies as investments in order to reduce premiums and increase investment returns.

AllFinancial Group

Learn more about AllFinancial Group by visiting www.allfinancialgrp.com or by calling 561-430-5317.

Policy Management Report

We offer the following services for trustees and individuals to optimize their policies as investments and potentially reduce their future premiums.

Mortality Underwriting & Life Expectancy Projections. Life expectancy projections allow policy owners to reduce premiums or discontinue payments altogether using the cash surrender value. AFG uses a proprietary method to estimate life expectancies, which involves extensive medical record review, actuarial assumptions, and appropriate monitoring. Life expectancy projections are the cornerstone of managing life insurance policies as investments.

Fair Market Value Analysis and Policy Performance. After obtaining the most current in-force illustration and annual statements from the insurance carrier, AFG uses Milliman software to determine policies' fair market value, Cost of Insurance (COI), monthly income statements, and several other critical elements. AFG also explains the availability of special riders and potential COI increases. Bi-annual review provide necessary information to the policy owner to make any adjustments on premium payments.

Administrative Review. The life cycle of a policy should be reviewed in its entirety. We check for mistakes made by the insurance carrier, verify that premiums are timely paid and credited to the policy, and validate that the policy is accurately titled with the correct timeline of owners and beneficiaries. AFG also reviews the financial stability of insurance carriers to ensure future payment.

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AllFinancial Group LLC is a vertically integrated alternative asset management and finance company. Founded in 1997, AFG has originated over $4 billion in life settlement face value for sale to the market, and has purchased over $1 billion in face value for its own account. Over the past 15 years, AFG has invested over $250 million in combined institutional and proprietary capital.

How is the AFG line of credit **different from traditional** premium financing?

- We offer financing for in-force policies, while traditional financing is typically only for new policies.
- Our process is simpler and requires less paperwork than the traditional process, because there is no financial underwriting and no personal guarantees.
- No cash collateral is required. Repayment of the line of credit is secured by the future death benefit only.
- The line of credit includes cash advances, payment of premiums, additional expenses, and legal and accounting fees.
- There are no pre-payment penalties, or restrictions that may affect the policy owner.
- This line of credit transfers longevity risk and the risk of the escalating cost of insurance from the policy owner to the lender.
- AFG also offers emergency bridge loans secured only by the policy's future death benefit.

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