



# GOING LONG

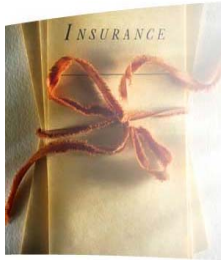
Detterbeck Wealth Management, Inc.



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## Unlock the Cash Potential of Life Insurance

By Brett M. Detterbeck, CFA, CFP®



Many seniors faced with high premiums or other cash flow shortfalls simply let their insurance policies lapse. But many of them were probably not aware of the cash potential of selling the policy via an exciting financial planning tool called life settlements. A life settlement is the sale of a life

insurance policy by a senior for an amount greater than the cash surrender value of that policy.

The emergence of a secondary market for life insurance is a recent phenomenon. The reason for this growth is simple. Most insurance policies were purchased to protect for specific risks (estate tax, business continuation, loss of a key person, etc.) Once the risk no longer exists, there is no need for the insurance. Over 80% of large life policies are now surrendered for their cash value. But selling these policies in a secondary market via life settlements can be far better for the seller. Why? To answer, one needs to look at how cash surrender values work.

Premiums paid in the early years of a life policy are greater than actuarially required to provide coverage, and they accumulate earnings over the years, building a reserve for a time late in the policy term when premium payments become less than required to provide the coverage. If a policy is canceled or surrendered before maturity, the premiums and accumulations are greater than the coverage actually purchased by the insured. The cash surrender value represents this amount minus a surrender charge and any outstanding balance on a policy loan the insured may have taken. The insurance company would much rather pay you this amount than pay out the face value of the contract at some point in the future. And whereas you might not be willing to keep paying for unnecessary insurance, there are investor pools and other financial firms that will take over the policy via these life settlements vehicles.

The proceeds from a life settlement can be used in a

variety of ways:

- Provide cash for an emergency situation or for investment purposes
- Provide cash gifts to family members
- Provide funds for charitable giving or to establish a charitable remainder trust
- Use settlement proceeds to purchase a less-expensive single life or survivorship policy, annuity or Long-Term Care Policy

Here's an actual example of a case:

By unlocking the cash potential of his life insurance through a life settlement, this client was able to stop paying

*Male Age 78  
Coverage Amount: \$2,000,000  
Cash Value: \$258,000  
Life Settlement: \$800,000*

very expensive universal life insurance premiums while also changing the life insurance coverage amount to a smaller, more appropriate level. The client used the life settlement proceeds to fund an annuity. Now, the annuity pays the premium payments on a new life insurance policy and the family has excess cash.

Here's another case:

The client's spouse was deceased and she needed an unaffordable long-term care policy. By utilizing a life

*Female Age 83  
Coverage Amount: \$750,000  
Cash Value: \$24,374  
Life Settlement: \$265,000*

settlement, she was able to sell their joint survivor insurance and use the funds to purchase a long-term care policy.

As you can see the funds can be used for practical applications as well as a tool for estate planning. It also can be applied to business:

- Key-Man policy is no longer needed due to retirement or change in business structure
- Provide funds to pay off a company debt
- A bankruptcy forces liquidation of assets
- A Buy/Sell Agreement Policy is no longer

*(Life Insurance Continued from page 1)*

- needed due to sale of the company
- Provide funds for a deferred compensation program

As shown above, life settlements can really unlock some previously undiscovered cash potential. But how do you know if this is something for you? Basically, if you or a family member that you know is 65 years or older and can answer "yes" to any of the following questions, give us a call to explore your scenarios:

- Are you planning to surrender or lapse a policy?
- Do you need new life insurance, an annuity or Long-Term Care coverage?
- Have you outlived your beneficiaries?
- Have your insurance needs changed?
- Are your policy premiums now unaffordable?
- Has your health status changed since policy inception?
- Are you a retiring key-man?
- Are you selling a company/partnership?
- Are you going through bankruptcy?

Basically all insurance types (term, whole, variable, universal, etc) can be utilized with a life settlement. DWM can coordinate the competitive bidding



process with 20+ big insurance companies that can result in an offer for the policy of anywhere from 30-50% of the face value of policy. You owe it to yourself to check it out and see if you too have cash potential to unlock.

## ALTERNATIVE INVESTMENT SEMINAR A GREAT SUCCESS!

On March 2<sup>nd</sup>, Detterbeck Wealth Management hosted its first alternative investment seminar at the Inverness Golf Club with fellow advisors and special speakers. Brett Detterbeck, CFA, CFP® explained alternative assets and how they complement your core portfolio, followed by our guest speakers:

*Equipment Leasing: Rob Hill, Icon Capital  
Medical Receivables Financing: Phil Rosen, Medical Capital  
Oil and Gas Programs: Chris Fiano, Penneco*

Thank you to everyone who contributed to the success of this event. If you are interested in incorporating alternative assets into your portfolio, please call for more information. A second seminar is tentatively scheduled for the fall and will probably include Real Estate Investment Trusts (REITS) and Life Settlements (see the related article "Unlock the Cash Potential of Life Insurance").

## *charles* SCHWAB *NEW EQUITY TRADING PRICING*

We are pleased to announce that Charles Schwab & Co., Inc. has implemented new pricing for electronic equity trades beginning this month. The new pricing is \$19.95 for the first 1,000 shares and an additional \$.015 per share thereafter. For household accounts with over 1 Million in asset value, the electronic pricing is a flat price of \$9.95. Schwab's standard commission schedule has been reduced by 30 percent with this change and marks Schwab's commitment to growth of the financial advisory market. Detterbeck Wealth Management, Inc. is excited to pass along this value to you!

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