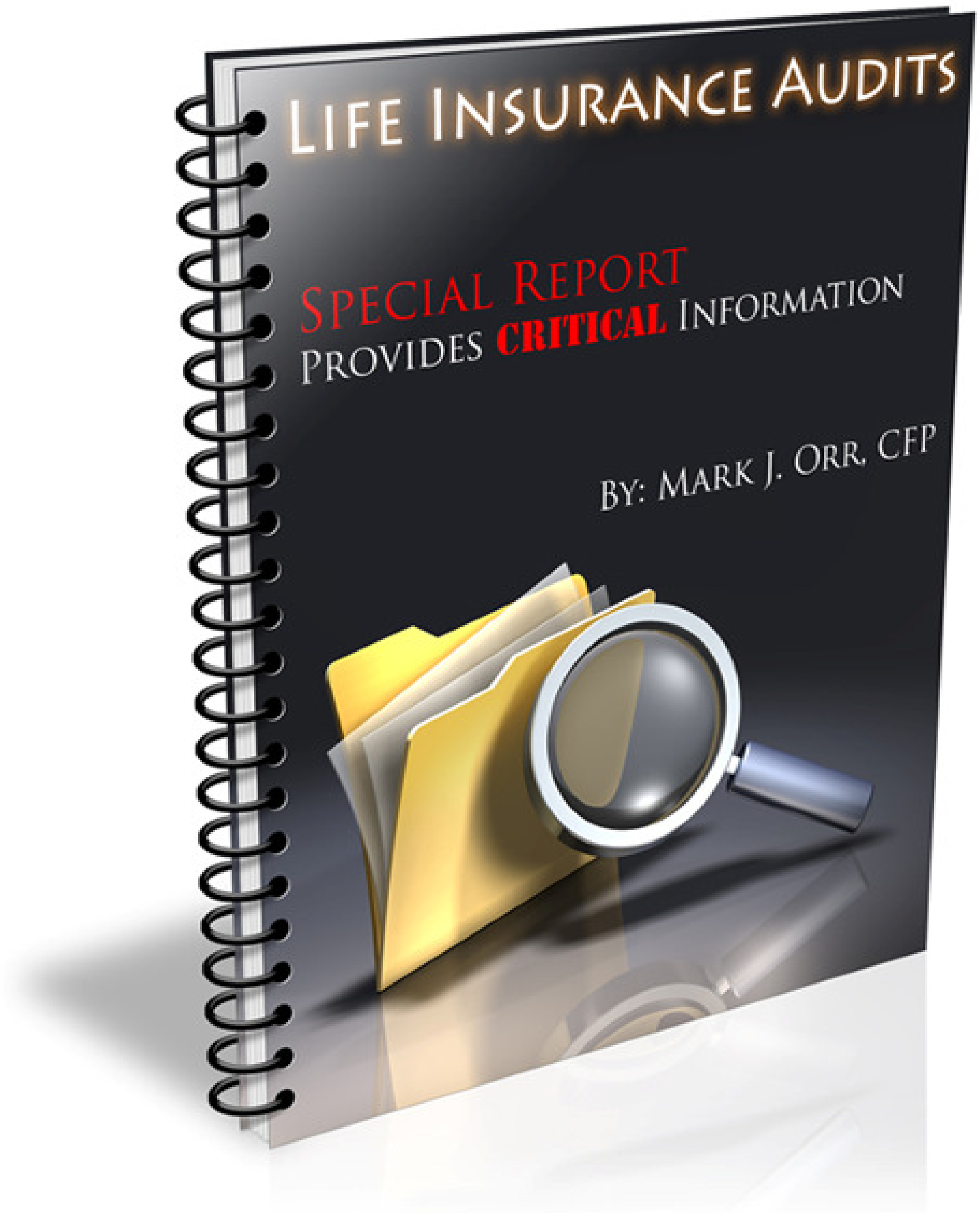
"An Absolute Must-Read for Anyone Who Owns Or Is a Beneficiary of a Cash-Value Life Insurance Policy"



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What is a Life Insurance Audit?

Life insurance is a very important tool that is owned by most individuals, businesses, trusts and other types of entities. These policies have traditionally been viewed as long-term assets. Very often it is the most important financial instrument that is owned... but unlike stocks and bonds, it is seldom evaluated, valued or assessed in a comprehensive or objective manner.

Life insurance is usually the cornerstone of a good financial plan and serves many purposes (other than just a death benefit, but this is beyond the scope of this Report). It deserves serious attention and regular objective examinations. However in my experience, many policies and indeed most policies have largely been ignored by the policy owner after they were issued. The policies are put in a file and forgotten.

That is a big mistake and one that could cost the policy owner and or beneficiaries a huge problem and potential negative surprises – so that needs to change. What you will learn in this report will open your eyes as to how important a comprehensive review or what many call an "audit" of a life insurance policy really is.

Statistics from thousands of life insurance policy audits that we have performed over the years show that **about 65% of all life insurance policies can be significantly improved**. In the balance of cases, the audited policies that don't result in prospects for considerable improvement, the owner receives helpful recommendations or gains the assurance that in their case, the policy in place, is the best one to meet their objectives.

By improved, I mean that the **premium could be substantially lowered and maintain the SAME level of death benefits, the death benefit materially INCREASED for the same level of premium cost** or other significant improvement(s) could be achieved, such as gaining guarantees that the death benefit hoped for will actually be paid. **If you read nothing else in this report – READ the audit examples & back BONUS section!**

One doesn't ignore their real estate holdings or their stock portfolios. So, just as investment portfolios are periodically appraised, life insurance needs to be managed and monitored at least every couple of years in order to evaluate its performance against the original projections and expectations to MAKE SURE it will pay a death claim.

Very often one will find scope for considerable improvement, new opportunities and protection from the consequences of inattention such as lapsed policies, unnecessary costly premiums, and even the very real legal issue of breach fiduciary responsibilities.

Yes, anyone that is a trustee of a trust that holds a life insurance policy could be in real danger of unwanted legal problems due to not fully and regularly performing a policy review by a qualified professional well versed in this specialized area.

An article in the May 2003 issue of Trusts and Estates magazine points out that many problems and even the potential of lawsuits against trustees of trust-owned policies. The trustee has a **fiduciary obligation to the beneficiaries to act on their behalf**. And not pro-actively having life insurance policies assessed by objective experts could be a breach of that duty which could result in legal action.

These legal actions could be expensive and the beneficiaries of these policies could end up being big losers should the policy lapse prior to death or need much bigger premiums to keep the policy in force so it will pay the anticipated death benefit. **You cannot just ASSUME that a policy bought years ago will in fact be in force when it is needed**.

Whether the trustee is a family member, friend or a professional trustee such as a bank trust department or attorney, multiple surveys showed that the majority of trustees have never reviewed or monitored any life insurance policy held in the trust.

A survey taken for that article shows that nearly 84% of trustees had no guidelines or procedures for handling trust-owned policies — even though it is their duty to provide a format for these procedures.

A life insurance audit provides trustees with a comprehensive evaluation of an existing policy that are consistent with the Uniform Prudent Investors Act. This provides protection for the trustee, the grantor and the beneficiaries from failure of the policy to meet its objectives for all concerned parties.

But the problems of ignorance and neglect are not limited to trust owned policies. Life insurance policies owned by charities, educational institutions, businesses and individuals all face the same risks of buying a policy and simply making the required premiums and not regularly monitoring the asset.

As you read the many examples of life insurance policy audits in the pages that follow, you will wonder why no one (not even the agent that sold the policy) has ever brought this up before. And frankly, you are right to wonder! And there are reasons for that.

Let me be clear that this Report focuses on permanent, cash value life insurance whether it is whole life or some form of universal life. **Even fully paid up policies are worth investigating** as there may be potential to substantially increase the death benefit for no additional premium cost!

Term insurance certainly has its value in the marketplace. It serves a purpose of insuring those who cannot afford permanent insurance or do not have the need for permanent life insurance. Term insurance is usually quite straight forward, and I certainly would not call it an audit. But to shop and compare what is available now, is usually a prudent step to take.

I often find that as term rates have been lowered industry wide, and new medical underwriting standards are in place, that term premiums can be cut or death benefits substantially raised, as a result of this exercise.

And while I'm on the subject of term insurance, make sure that the term policy that you own or want to own has a good convertibility feature.

Being able to convert a term policy into a permanent life insurance policy without evidence of insurability is a worthwhile feature. A good "conversion" clause, is one which allows conversion without any health exam or statement of health up to the age of 70 or during the term policy prior to age 70 is helpful and is worth the tiny extra cost.

So Why Evaluate Your Cash Value Life Insurance Policy?

Well, the life insurance industry is no different than any other industry or product. The industry is operating on a vastly different paying field than it was even 5-10 years ago.

Change is constant and usually for the better of the consumer. The insurance industry has seen big changes in the way life insurance policies have been designed, priced and medically underwritten due to a convergence of a number of evolving factors.

Since life insurance is intended to protect the well-being of families, businesses, and even charities, a life insurance audit makes certain that it does what it is intended… and does so in the best manner available.

Another important benefit of a life insurance audit is that the policyholder will actually understand the life insurance policy that they bought. I usually find that the owner of the policy has no idea of how the life insurance policy actually “works”. I believe that fully understanding their policy is critically important and should never be overlooked.

As you probably realize, life expectancies on a national basis have been increasing over the last few decades. Medical science keeps us alive longer than ever.

Depending upon when a policy was issued, the rates were determined in part by either the 1958 or 1980 CSO mortality tables. Clearly Americans have longer life expectancies now than in either of those time periods.

It will soon be required that life insurance companies base new policy rates on the more updated 2001 CSO mortality table and many have already been using this table for this purpose.

Competition amongst insurance companies for new business has never been more keen. Some newer life policies even have potential long term care benefits available. Anyway, you’ll **love reading the many audit result examples in a few pages** to see for yourself.

So besides the fact that we are living longer and the life insurance companies are more competitive than ever, what else has changed? Let’s take a look.

It used to be that there were just two types of health ratings for a life insurance policy -- either smoker or non-smoker. But as competition, underwriting experience and medical science improved, there are now up to 8 or so health classifications for people applying for life insurance.

Each company might have non-smoking categories of preferred plus, preferred, standard plus and standard. The company may have similar categories for those who use tobacco.

Even those with heart disease, diabetes, a history of cancer or other medical issues could be issued a policy at a standard rate today. You'll **learn about other ways that my clients profit from the changes in underwriting in the BONUS section at the end**.

Each insurance company tends to look at various medical issues differently. Some avoid high blood pressure, others worry about avocations or occupations, while their competitors take a different stance. So it pays to know the underwriting marketplace – which insurers are likely to look past each medical or lifestyle issue. Change is constant.

For those that bought a policy a few years ago, and had their policies "table-rated" or issued at sub-standard rates (which means more expensive than standard rates) could benefit from a much better health rating today.

Someone that was table-rated in 1990 due to a history of cancer, may be rated as a standard risk today. Perhaps years ago they were rated as a standard due to build issues (they weigh too much for their height) but with more liberal height/weight guidelines in place today, they may get through as a preferred risk.

Another major change is policy design and product enhancements. It used to be that there were just 3 basic types of life insurance products: term, whole life and universal life. Now there are many different variations on those three basic policy types.

There is a new generation of policies available today that have important features that were not available even a few short years ago. For example, many older policy designs of Universal Life insurance had no lapse protection despite the policy premiums being paid on time each year. Some policies today even have provisions to pay for long term care expenses. The policy owner doesn't need to die to get useful benefits.

Today many policies come with lapse protection to ensure the death benefit is paid as long as the policyholder meets certain conditions, such as paying the premiums on time and not taking policy loans or making withdrawals, etc.

Many people own a Universal life policy that was sold in the days of 12% interest rates and on the basis that those high rates would be earned in the policy until death. That assumption, made the ongoing policy premiums appear to be lower than that unreasonable projection could sustain.

Having gone through a long period of low interest rates in the USA, those policies are in grave danger of imploding, without large infusions of extra premiums. Since insurance companies cannot credit much higher interest to policies than what they themselves are earning in the bond market, these policies that were sold prior to the year 2000 are not performing as expected.

Many are in danger of lapsing and often the policy owner has no idea of the impending problem that will cause until it is too late or too expensive to fix.

And Variable Universal Life policies that were bought in the 1990's are also at risk based on the stock market performance in the early part of the new century as well as that fact that many policies were stuffed in a file and not looked at in years.

These types of policies can NEVER be ignored and I would argue, they need to be monitored more often than ANY investment holdings or portfolio.

Since they are driven by the sub accounts (similar to mutual funds) chosen, these policies can either perform better than any other type of policy or a lot worse, depending upon the overall market and investing skill of the policy holder (or agent).

And the life insurance industry itself has gone through a period of mergers and acquisitions. Sometimes the policy owner would benefit when a financially stronger company took over a weaker one. There have also been demutualizations, which change insurance company ownership from the policyholders to stockholders. These have, at times, negatively affected policyholders.

Whether or not your life insurance company has been involved in an acquisition or merger is not the only factor that could affect its financial stability and capability to meet its ongoing obligations to its policy owners and beneficiaries.

I use a Comdex score to determine the financial ratings of an insurance company. The Comdex score is a number from 1-100 (with 100 being the best) based on a complex formula of the combined financial ratings of AM Best, Standard and Poor's (S&P), Moody's and Fitch.

I tend to only use insurance companies that have a Comdex score of at least 85, unless there are health issues or specific policy benefits that are not otherwise available, which dictate the use of a company that has a score of at least 73.

What else is changing? Competition and other market forces have affected policy expenses and insurance charges (COI).

These expenses are largely determined by the company on a regular and ongoing basis and are subject only to limitations written and guaranteed in the policy contract.

COI charges and policy expenses are typically the most important factor in changing how a policy is currently performing relative to its initial expectations.

And even if one has the perfect life insurance policy (and I'm not sure that even exists), perhaps your own circumstances and/or planning goals have changed. This is often an overlooked factor.

A life insurance policy is just a financial tool. It does its job very well, but you still need to use the "right" tool to accomplish the desired job. If the "job" or goal has changed, perhaps a policy that is better suited to that goal would be in order.

There is now a very vibrant secondary market for life insurance policies. This means that life insurance policies can be valued and indeed sold at fair market value to a third party. This market is called "Life Settlement". It is a multi BILLION dollar market.

This development has given policy owners more options. A life insurance policy is often more valuable in the secondary market than the cash surrender value if one simply cashed in their policy to their carrier.

The audit process usually involves placing a current market value on a life insurance policy. Knowing a true market value, gives the owner of the policy new options.

Sometime the policyholder will decide to sell the policy. This decision can come forth for many reasons. Sometimes a policy is no longer needed. Other times, the premiums have become unaffordable or paying them undesirable for a multitude of reasons.

Sometimes a policy can be sold on the one hand and then be replaced with a more favorable policy (one that better meets the original or new objectives of the owner) using the proceeds of the sale to make a large premium deposit on the new policy.

Knowing the market value of a life insurance policy gives the ability (one that really didn't exist before) to improve their life insurance options and actually act on them, should it be in the best interest of the policy owner and/or beneficiaries.

I'll write some more about the life settlement market later in this Report. But first let's take a look at a **representative sample of the positive and meaningful results that can come from the audit process** and why you should explore having any cash value policy that you have an interest in audited by a competent and objective professional.

Example #1

A male born on 10/10/1929 bought a $1 million dollar Universal Life policy from a very highly-rated insurer in June of 1990. In actual fact, his trust owned and was the beneficiary of the policy and his bank was the trustee. The purpose of the policy was for estate liquidity.

His annual premium was $30,000. Since the purchase of the policy he had grown the cash surrender value in the policy to $284,823. This is the value of the policy, should the client ever want to walk away for the policy and just turn back over to the insurance company. Of course, the insurance company would no longer have the obligation to pay the death benefit, since the policy would be then canceled.

During the audit process, we discovered that under the policy's current assumptions, provided by the life insurance company, the policy would remain in force until he turned aged 92. However, under the GUARANTEED provisions of the policy, it was only guaranteed to stay in force for eight more years at the current premium payment.

These were found out by what is called an "in-force illustration" which was furnished by the insurance company home office. This "snapshot" of the policy shows 2-3 scenarios of how the policy might perform going forward based on certain assumptions.

He was planning on living beyond the eight years that his policy was guaranteed for so that was a potential problem. In actual fact, the future policy performance is likely to end up being somewhere in the middle – between the current assumptions and the guaranteed provisions.

Let me mention right here that Universal Life contracts have two “sides”. One side illustrates the current assumptions and the other side is the guaranteed provisions.

The current assumptions mean that according to “current” policy charges, mortality costs and interest crediting rates, the policy will perform in “this way” if these assumptions stayed the same until death.

The guaranteed provisions side is like the “worst case” scenario of how the policy could perform going forward. It shows that if the company reduced the interest crediting rates to the absolute minimum allowed by the contract provisions and raised the policy charges and mortality costs to the highest level allowed by contract, what could happen.

It is unlikely that the “worst case” scenario will ever actually happen, but the policy owner should at least be aware of the possibility and even take steps to improve on them. Likewise, the policy will almost never perform as the current illustration shows either.

But let’s get back to the example.

If the worst case scenario (the guaranteed assumptions) actually materialized, the policy would lapse (would not provide a death benefit) and all premiums made (those were $30,000 each year) and the cash surrender value would be lost.

That would be awful for the beneficiary of the trust, as well as for the premium payer, who would lose all value from making years of substantial premiums.

The second part of the audit process was to explore possible alternatives. In this case we found two different ways to go. Either reduce the necessary premiums to **guarantee** the initial death benefit… or increase the death benefit for the same annual premium.

In actual fact we found that the client could do a 1035 tax-free exchange of the existing cash surrender value to another highly rated insurance company.

A 1035 exchange is the tax code that allows for a tax free switch from one policy to another without any tax effect as long as the money goes from one insurer to the other and does not go to the client. Think of it as similar to a trustee to trustee IRA rollover.

Based on the client's current health, the ongoing premiums to GUARANTEE a $1 million death benefit would be reduced to just $10,390 per year.

That's a savings of nearly $20,000 per year. That's enough money to annually fund ROTH IRA's for his five grandchildren (which is what he did) for as long as he lives and still maintain the initial death benefit.

The other point to mention here is that not only were the premiums reduced, there was no risk of his policy lapsing at any time (unlike the possibility of 8 years under the current policy) as long as he made the premiums on time and followed the other provisions for the death benefit guarantee.

His other potential outcome was to do a 1035 tax-free exchange and continue paying the $30,000 to another policy and increase the guaranteed death benefit to $1,538,746. That is over 50% larger than the policy bought in 1990 for the exact same premium.

Based on his goals and objectives, he decided to keep the death benefit the same and reduce the ongoing premiums rather than increase the death benefit. But either scenario would have been possible, as a result of the life insurance audit.

Not that it matters with these high financial rating scores, but the Comdex score went for a 95 with the then current company to 97 with the new insurer.

Example #2

A young couple, he is age 47 and she is 52, set up a trust to own a $5 million dollar last-to-die life insurance policy.

The death benefit would be paid at the second death to cover anticipated estate taxes. This is a common type of policy for estate planning purposes.

Both are in pretty good health… just as they were when the policy was issued in August of 1999. They have been paying and would continue to pay $43,413 per year (until age 100) in policy premiums.

They had accumulated $133,000 in cash surrender value in the policy, which is a Variable universal life (policy cash is invested in the stock market and bears the risk of bad market performance or badly chosen investments). The current policy, issued by a huge “household name” stock brokerage firm (but only A rated for insurance financial strength) had NO guarantees that the policy would not lapse.

Yes, the audit showed that there was NO guarantee that those $43,000 annual premiums will be enough to carry the policy (keep it in force) until the second death. If the policy is not in force at the time of the second death, there is NO death benefit paid.

Depending upon how the stock market does (and how “well” they choose their investments made within the policy), the policy “may” last until age 100 or even beyond. Or it may not. How good a bet is that? **Would you risk over $43,000 each year without any guarantees that the death benefit would be paid?**

To make a long story short, the audit process showed us a much better way. We decided to switch (via a 1035 tax free exchange) the policy to a much higher rated company (A++ instead of A).

With the new insurer, we had 3 options: either 1) ensure that the policy would NEVER lapse, 2) INCREASE the guaranteed death benefit amount at the current premium cost or 3) reduce the annual premiums to ZERO.

That’s correct – no more premiums. If they took this option, the death benefit guarantees would only last 29 years from now. Although that’s 29 years of more guarantees than they had before… it wasn’t enough. It’s not the right choice given the important goal for the policy to provide for and the likelihood that at least one of the spouses will live longer than 29 years from that point.

Increasing the death benefit was another option, but they felt comfortable with the $5 million death benefit, along with other estate planning that we will accomplish over the coming years, would be enough life insurance coverage.

So we decided on the option to guarantee that the policy would never lapse. The new policy is guaranteed to last until age 120 – no matter what happens in the stock market. And you know what**? Even though we guaranteed that the policy would never lapse, we also cut the premiums in half**.

Instead of the old annual premium of over $43,000 – the new one is just $21,242 per year! This couple was extremely pleased that they will save over $440,000 over just the next 20 years. And **they will keep saving that $22,000 each year until age 100** when the premiums stop.

So to sum up this case, we cut the premiums by about half, guaranteed the policy would never lapse and improved the financial quality of the insurance carrier.

Example #3

This example is about a Universal Life policy which was bought in 1988 by a male born on 11/14/1942. The death benefit was $250,000 and the annual premium was $4,650. There was $28,628 in cash surrender value in the policy.

The Life Insurance Audit demonstrated to the client that given the "current" projections the current life insurance company provided, the policy would likely continue to be in force (and pay out a death claim) until he reached age 80, and it was only guaranteed to remain in force until he turned age 74.

Of course, this man hoped to live longer than either of those ages and wanted to make sure that his life insurance policy "lasted" longer than he did! That was priority number one!

And if he could save some money on the annual premium, that would be nice as well.

The result of the audit process granted him both of his wishes. We were able to find a carrier that would guarantee the death benefit beyond age 100 at an annual premium of just $2,119. That was a savings of over $2,500 per year. As a side note, the financial strength of the insurance carrier (as rated by Comdex) was also improved.

Example #4

This case was a ten year TERM life policy (no cash value) for $500,000. The life insurance was required by a bank to secure a bank loan on her business. The woman was 64 years old, had some past health issues and the original policy was issued a year before the audit.

Her old premium was $4,775 per year. Through a very simplified process, we found a new carrier for $3,015 per year, despite the fact that she was a year older.

She will save over $1,750 each year or $17,500 over the next decade. That is a lot of money for anyone to keep in their pocket – especially for a death benefit that will go to the bank instead of her loved ones!

Example #5

This couple was born in 1931 and 1933 and they had bought a second-to-die universal life policy from a highly rated insurer with a $600,000 death benefit in December of 1997. It would pay the death benefit ONLY after the second spouse passed away.

They had been paying required premiums of $15,000 per year and originally planned on doing so for another 8 years (that's what the agent told them based on the original "projections"). But they may have to pay for more years than they had originally thought - just to keep the policy in force. The policy had built up a cash surrender value of about $100,000.

According to the Audit, depending upon how interest rates were going to be credited and how mortality charges would be charged in the future, their policy "may have" lasted to age 100… or maybe just 16 more years (which was guaranteed by contract).

They were concerned that if the policy didn't perform well, they could lose their cash value and the death benefit. What a waste of all those years of paying annual premiums!

To make a long story short, even though they are now seven years older, we were able to improve their estate planning dramatically. Let's take a look at how we did that.

We found a AAA rated company who 1) would guarantee that the policy would never lapse, even if one of them lived beyond age 100 and 2) we dropped the required annual premium to just $9,953 for the same 8 more years (that they had hoped to only pay the $15,000 before). And this new premium **is guaranteed to STOP** (be fully paid up) in 8 years and still keep the contract in force to beyond age 100.

To review, we guaranteed the death benefit forever and **saved them over $40,000 over the next eight years – and maybe more**. He still sends me Christmas cards!

Example #6

This case is about a male age 47, who was in "super preferred health" and had $497,000 in cash surrender value in a policy with a $5 million dollar death benefit.

To coincide with his planned early retirement at age 50, he only wanted to pay three more premiums instead of paying the current policy premium for the rest of his life – and he wanted to guarantee that the policy would never lapse.

His current insurer told him they would require three more payments of $147,000 to accomplish that goal. When comparing his options with the advantage of having gone through the life insurance audit, we found an equally rated insurer that required just $722 for the next 3 years to accomplish the same goal. That's exactly correct – just $722 per year for the next three years.

The free life insurance audit performed by our team saved this client $439,128. If that client invests that saved $439,000 and earns just 8% annually for the next 20 years, that sum would grow to over $2 million by the time he turned age 70.

Now his whole neighborhood is calling us to perform objective audits on their policies!

Example #7

A male, now aged 72 was issued a policy with a preferred non-smoking rate 12 years ago. The current premium was $23,486, but the policy only guarantees four more years of coverage. In fact, his current insurance company told him that it would cost an annual premium of $37,322 to carry the policy to age 95 (yet still not fully guaranteed).

Even though he now has a pacemaker, we could offer a few options to the client at a Standard non-smoker rate. We could move (via a 1035 exchange) the existing coverage to a new carrier and maintain the same $23,486 premium and extend the death benefit guarantees from just 4 more years, all the way to age 90.

Or we could sell the existing coverage in the secondary market (life settlements will be discussed shortly) for $140,000 cash (which was deposited into the new contract) and pay new insurance company $34,276 annually to extend the guarantee death benefit to age 120. This way, he could never outlive the death benefit.

Example #8

A female aged 80 now, had bought a life policy with a death benefit of $2,250,000 about 17 years ago which was issued Standard non-smoking. The audit showed that the annual premium of $96,232 might carry the coverage until age 99 – or it might not since there were no death benefit guarantees. The policy had cash value of $748,339.

Of course she had the option to keep everything as it was and continue to pay the $96,232 and simply hope for the best.

However, she decided to take the best recommendation that we could come up with and move the existing coverage and its cash value to a new policy. This resulted in new annual premiums of just $47,804 (**a savings of over $48,000 each year**) and a death benefit that is guaranteed for life.

Now she has no worries about if the policy will be in force and pay out at her death.

Her beneficiaries will absolutely get the death benefit she was planning on. Additionally, the large savings of premium will eventually go to them as well.

Example #9

Here is an example of a life insurance policy that was no longer affordable, nor needed by the client. The client wasn't so much looking to save money on premiums or even to guarantee a death benefit. They simply had NO desire to keep paying the annual premiums and wanted to look at other options than just surrendering the policy for the small cash surrender value.

This couple aged 73 and 72 at the time, owned a second–to-die life insurance policy with a $1 million death benefit. This policy had a tiny cash surrender value of just $3,900.

Without going into all of the details of why they no longer wanted the policy since they are not important (it was no longer needed to cover potential estate taxes due to an expiring GRAT), the end result was that they wanted to know their options. The agent that sold them the policy had left the insurance business (which is somewhat typical).

To get back to the case, this couple learned about life settlements from us. A life settlement is when a senior sells their existing life insurance policy because it is no longer wanted, needed or affordable. The sales price paid to the owner of the policy is greater than the actual cash surrender value of the policy is they just cash it in to the insurer.

Every year BILLIONS of dollars are completed in the Life Settlement market – generating tremendous value for policyholders who otherwise would have "settle" for much, much less than their insurer would have given them if they simply surrendered their policy back to the company.

Of course this financial planning concept is not right for everyone and most policies do not even qualify for sale.

Generally, the insured(s) must be over age 73 (although there are exceptions and some buyers will go as low as 65). The life insurance policy must generally have a death benefit of at least $500,000, although again there are exceptions going down to $250,000 or perhaps even lower.

The policy generally has to have been in place for at least two years to have passed the "suicide clause" and contestability period. There could be exceptions made here, but it would adversely affect the value of the policy.

There are even hundreds of cases where people buy life insurance for the purpose of reselling the policy in 2-5 years for a profit. It is something that we have handled in the past, but again there are restrictions and safeguards.

But let me say that as the situation stands today, entering into a life insurance contract with the sole purpose of selling it later…. RATHER than just understanding that the life settlement market is just a viable "exit" strategy giving the policy owner more options, could be a mistake.

But let's get back to this case.

We shopped the policy around to big insurance companies (sometimes even the SAME company that wrote the policy), banks, and even specialized hedge funds to get the best possible price for the client.

In the end, this couple was able to sell their policy for $221,000 CASH. They no longer had to make the premium payments (the institutional buyer gets that privilege along with the right to receive the full death benefit when both spouses eventually pass away.

So the process of getting a fair market valuation of the existing life insurance policy got the client over 56 times what they otherwise would have gotten if they just surrendered the policy to the insurance company.

Sometimes we sell part of the policy, so that the policyholder's beneficiary gets some of the death benefit, but the policyholder stops making premium payments (which the buyer makes so they get the rest of the death benefits).

The sky is the limit as to the possibilities. **It all comes down to what is the client's new objectives** and how do we best meet them. That's when we can get creative for the benefit of the client.

There are some potential income taxes (either capital gain or ordinary income) on the sales price which is over and above what the client had paid in total premiums. But what would you rather have, $3,900 in cash surrender value or over $150,000 net of taxes from a life settlement?

It always pays to see if you qualify for a life settlement. There is no cost to get your policy fully evaluated and reach a fair market value based on many bids for the policy. You should ALWAYS shop the policy with at least 2 brokers. In 85-90% the cases, our group will be able to get you a better offer than other brokers due to lower fees.

In some cases, where the client wants to have life insurance, we will sell an existing policy to purchase another one that much better meets the needs and goals of the client.

How Does the Process for a Life Insurance Policy Audit Work?

Well the whole idea of the audit is to objectively scrutinize all aspects of the insured's life insurance coverage relative to the industry changes (as described earlier in the report) and of course, the individual's needs and current goals for the insurance asset.

It is important to remember that a life insurance policy is a financial asset and should be treated as such. You should not ignore it and just "hope for the best".

If the agent that sold you the policy only sells for one insurance company, an audit won't be very meaningful if it is performed by that agent since they are beholden to their employer. And why hasn't that agent already suggested you have an policy audit?

It is best to work with a team that takes a consultative approach that is not tied to any insurance company and that has a large network of strategic partners who specialize in auditing, evaluating and even valuing the market value of life insurance policies.

Here are the usual steps in a life insurance audit:

1) Determine if the insured's insurance objectives have changed or should change based on current income, lifestyle, tax situation, and ALL objectives.

2) Get an in-force ledger from the current insurance company home office

3) Analyze the existing coverage to verify whether the policy will remain in force and under what conditions and funding levels will the policy perform it's intended goal Also determine if the current policy ownership and beneficiary is the most optimal from a tax and estate planning standpoint

4) Analyze corporate changes, carrier ratings, fees and policy expenses, crediting rates, etc. of the existing policy

5) In order to take advantage of improved mortality and the drastic changes in underwriting technology over the past years, the insured's current medical status is examined by requesting medical records and perhaps taking a free paramed exam. If appropriate, negotiations with carriers, on the insured's behalf to obtain more favorable medical underwriting rate classifications are handled behind the scenes.

6) Based on our up-to-date knowledge of nearly 80 highly rated carriers and hundreds of product offerings by those carriers, we will provide a number of recommendations that may more effectively meet the client's needs and stated goals.

7) If it makes sense, we will also find the highest value of the current policy in the secondary market when that might play a positive role in meeting the client's overall objectives.

8) The client makes determination on the next step. In nearly 35% of the cases, the client's best step is to keep everything as it is or make slight changes to the existing policy as recommended by the audit procedure. This gives the client the peace of mind that they are in the best position possible at the present time.

   In the other 65% of the cases, the client knows that their best course of action is to make some sort of major change to better meet their own objectives, based on the information presented in the Audit results.

Clearly, I have only written about the **65% or so of the audit cases that actually result in meaningful and substantial benefits to the insured, the policy owner or beneficiary**. I have tried to present a number of different scenarios, based on various client goals and circumstances that might be of interest to the reader.

Of course, that means that **about 35% of the time, the result of the audit is the peace of mind, that at least for now, the current life insurance asset is the best tool** available to meet the client's financial objective. There is no benefit to the reader to read those case histories. Wouldn't that be nice to know?

The odds are about two out of every three audits result in room for significant improvement relative to the goals or costs for the coverage. The other third of the cases show the client that they are on the right course. Both results have great value.

As you are reading this report, it is my goal to help you understand why it could be very important to you and any beneficiaries of your life insurance policy to have a free audit performed on your behalf.

There is no cost of obligation to do so. And quite frankly, the results of the audit will provide crystal clear direction – either you will know that your current policy is the best available to meet your goals as of right now… OR it will be in your absolute best interest to make some sort of a change (either with the existing policy or getting a new one).

$500 Special Audit Offer

Here's an offer to make starting the audit process even more attractive for you to actually begin now. You worked hard for your money – make it work harder for by getting the most for your premium dollars. Can you save money or increase benefits?

For those reading this, **I will DONATE $500 to their favorite charity to complete a life insurance audit through my firm**. I will make that donation whether or not your audit produces a meaningful result for you. In other words, you do not have to do anything beyond having the audit completed and presented to you to have the $500 donated to the cause of your choice: your church, Red Cross, American Cancer Society, a grandson's Boy Scout Troop, your favorite university or ANY recognized charitable association.

There is no catch. The only restrictions are: 1) the insured person <u>must be insurable</u> as to health conditions & personal history, etc 2) is an audit of a cash value policy (not term insurance) with at least a $250,000 death benefit and 3) all parties (insured, owner or trustee of the policy) must fully co-operate with the audit process on a timely basis (maybe a 2-3 hour total time commitment of phone calls, release medical records and a paramed exam) and 4) you or your family members are NOT insurance agents.

Besides the **obvious potential benefits of learning the results of the audit** and exactly where you stand with this important financial asset, your favorite charity cannot lose. The organization of your choice will benefit greatly from the donation (one per family) that my firm will gladly make in your name. The donation is just the icing on the cake.

By the way, if you are deeply involved with your church or a charitable cause, my $500 offer to donate also extends to other like-minded people in the group that qualify for the audit. So if my firm performs 10 life audits on these other peoples' qualified policies, that **organization would qualify for a total $5,000 donation**! As a practical matter there is no limit to this offer, as we have the processing capability and human resources to professionally perform dozens of comprehensive audits at a time.

You might be wondering why am I being so generous? As I've already written, about two-thirds of the policies that we audit result in a major or substantial improvement for the policyholder – so much so that they gladly work with me to get the better policy in place for them. And yes, I am also a charitably minded and a service oriented active member in my Rotary Club. So it is a win-win-win proposition for everyone involved!

A Little More on Life Settlements

Many people confuse a Life Settlement with a Viatical, which became very popular in the AIDs scare of the late 1990s. Viaticals involve the purchase of a policy from an insured that has a catastrophic or life-threatening illness or condition. Usually the life expectancy is less than 24 months.

Life Settlements do NOT usually occur when the insured has less than 24 months to live, and no change of health is required. Although life expectancy does play an important role in the potential sale and/or value of the life insurance policy, there does not need to be a present serious medical issue.

Unless the insured is in a dire financial situation, **it would normally be BEST to keep the policy and have the beneficiaries receive the full death benefit** rather than a lesser cash offer now. But if the insured <u>needs</u> the money while alive, a life settlement sale might be the answer. But don't be swayed by short-sighted, greedy agents that only want a commission and not recommend what is in YOUR best interest.

What Are the Primary Reasons Why People Would Want to Sell a Life Policy?

There are many. It usually boils down to the fact that the policy is no longer wanted or needed. Perhaps premiums have become unaffordable. Perhaps there has been a change in estate planning needs or a business owner no longer needs a life insurance policy to fund a buy-sell agreement. However, you do not want to be short-sighted.

I remember a case where a man in his seventies had a life insurance policy to take care of his only remaining direct heir. That heir was his daughter who was mentally retarded and the policy death benefit was to go to a “special needs trust” to take care of his daughter after his death (NEVER have the money go directly to that type of dependant so she would still qualify for state and government aid).

Well, that daughter passed away before he did and he was not willing to continue to pay premiums on an expensive policy to provide for nieces and nephews.

It turned out that the policy was worth nearly five times as much on the secondary market than the cash surrender value if he simple cashed in his policy. In this case, it was a no-brainer.

Are there any fees to the client in completing a life settlement?

Yes, there are many layers of fees, but these fees and/or compensation is usually paid out of the amount given to the client at “closing” so the client knows what their “net” offer really is and will make the decision based on this net offer. It is absolutely critical for you to ONLY deal with a life settlement broker that offers FULL DISCLOSURE of all fees, including that of the broker.

How much is a policy worth in the secondary market?

There are many, many factors, which include but are not limited to, the age and medical condition of the insured(s), the type of insurance policy, the amount of the death benefit, the amount of cash value in the policy, the necessary premiums to keep the policy in force until the death of the insured(s), compensation to the life settlement broker, etc.

What happens to my life insurance policy after I sell it?

The new owner has all of the rights and obligations of keeping the policy in force and will receive all of the death benefits once the insured(s) have died. The seller of the policy has no further rights or obligations. However, although you no longer have any rights in the policy, the fact that there is insurance on your life will tie up some or all of your capacity to get new life insurance.

Other than good health, your net worth determines the maximum amount of life insurance that you can get (capacity).

How private is the life settlement process? During the process, the insured will sign an authorization to release medical and other information to the life settlement brokerage company (who will shop the case to obtain the highest and best offer possible).
That information will be shared with third parties as necessary to obtain multiple offers, but will remain confidential according to the HIPPA laws.

Are there any alternatives to selling a life policy?

Of course, one can keep their policy or change the policy to a reduced paid-up (no further premiums to pay) at a reduced death benefit. One can take a loan out of the policy if there is enough cash value. Keep in mind that if the policy lapses, part of the loan proceeds may be taxable income. The policy can also be surrendered to the issuing company for the cash surrender value.

Any other tips?

Make sure that your life settlement broker has a lot of experience in this market (just being a life insurance agent for many years doesn't make them an expert) and that they will shop the policy to dozens of institutional investors (banks, insurance companies, hedge funds, etc). Make sure that you understand all of the ramifications of selling the policy and never sell a policy before getting actual coverage on the new policy (if that is the reason for selling).

I would also like to note here that some life insurance agents are NOT permitted by the insurer that they work for to even let you know that Life Settlement is an option for any of their policyholders. They would rather just pay out the cash surrender value of the policy. This is just another reason why you will probably want to deal with an independent financial advisor.

And if the person that sold you the life insurance is a registered rep (securities licensed) the broker/dealer that they work for may not permit discussions about life settlement for compliance reasons. That person's hands are tied and cannot help you.

Plus, **get tax advice from your tax advisor** on how your proceeds from a life settlement may be taxed (if at all).

Premium Financing

Before ending this report, I wanted to write a few words about premium financing, which is another way of funding a life insurance policy. This is where a third party such as Goldman Sachs, AIG, Credit Suisse or dozens of other large financial institutions will pay all or part of the life insurance premiums in return for an appropriate portion of the eventual death benefit.

Unfortunately at this time, for a number of reasons, premium financing is only available to the "wealthy". These programs can be very attractive for the ultra-rich (those who have a net worth of $10 million or much higher).

Premium financing is a way for them to keep their money working for them (instead of paying premiums out of pocket). It may **allow them to get the insurance coverage they need without having to deal with paying gift taxes or selling assets which would result in capital gains taxes.**

Premium financing fixes many estate gifting problems, where the grantor would otherwise have to pay gift taxes on monies given to the trust, because the premiums would be in excess of the annual tax-free gift amounts. At this time, that amount is $12,000 per beneficiary annually, which could be doubled if a spouse agrees to the gift as well and the appropriate informational tax forms are filed.

It is also way to keep their cash and liquidity, while having the additional life insurance for financial planning purposes. It also can save capital gains taxes if one were to have to sell appreciated assets to pay premiums that otherwise could be financed.

How much life insurance would you want if you didn't have to pay for the premiums??

However, not everyone who qualifies for premium financing is ultra rich. Generally, one must have a net worth of at least $3-4 million dollars and be in your late sixties or seventies. If one is younger and wants to take advantage of premium financing, the net worth requirements tend to start at about $10 million.

But this is a changing market and there are always exceptions to these rules of thumb.

Now this Report is not about Premium Financing, but while I'm on the subject, let me add an interesting note here that most life insurance agents haven't even thought of as a way to help their clients who do NOT meet the eligibility guidelines above.

I bring up the subject of premium financing, because sometimes in the audit process, this is another alternative to make the client aware of. For the "right" case and circumstances, premium financing is a godsend answer to getting the necessary coverage without sacrificing cash flow or paying gift taxes.

Premium financing (or just paying your own premiums) can also be a method to benefit from life insurance.

In the right circumstances, one can obtain coverage and then possibly sell the policy in the life settlement market two or more years down the road. I'll write about a couple of other ways to profit with life insurance while you are alive, later in the BONUS section.

But again, this is just another potential exit strategy for the policy owner.

In this case, we leverage one's health and financial statement for potential benefit and this is another possibility for those in their 70s or 80s.

But for most people, keeping a life insurance policy (or doing a 1035 exchange) is the best way to truly benefit your family or charity.

It is a powerful financial tool that buys future dollars with pennies today.

There are many variations of financing programs out there. Some require little or no collateral. Others require the insured pays current interest on the premiums loaned while others have no ongoing payment obligations.

Initial fees and costs can be steep or rolled right into the program and repaid out of the eventual death benefit.

One program that I frequently talk about with clients is **almost like "free life insurance".** I am currently working on a case that could give the beneficiaries of a 75 year-old woman about $300,000 - $400,000 of net death benefit. Her only obligation is to put up a small amount of collateral of about $50,000 for a period of five years (perhaps a CD which she will still get the interest income from).

The actual net death benefit paid to her beneficiaries will depend upon the date of death, as the institution that financed the premium will get back all of their fees, premium payments and interest at death.

It is still a very attractive deal for the client, who basically gets some free life insurance, in return for putting up the small amount of collateral necessary and using insurance capacity that they were going to not use anyway.

This subject is constantly changing and either not available (net worth not high enough) or not appropriate for the needs of the client, to go into further here. But I wanted to make sure that you knew that the financial planning concept or strategy even existed.

If premium financing might be appropriate for you to consider, we would bring it to your attention as it might specifically apply to your objectives. Billions of dollars of face value (death benefits) are financed every year. For the right situation, this strategy is a good alternative to consider.

There are also powerful yet, underutilized ways **to buy life insurance with pre-tax dollars in your retirement plan. If you own a business we need to talk about this**!

What to Do Next…

Our team of life insurance advisors (and the largest privately held life insurance brokerage in the United States) have completed **more than 4,000 life insurance audits** during just the past three years for trust departments, charities and individuals. We have high-level access and deep, long-standing relationships with more than 75 insurance companies and a large staff of experienced professionals.

Nearly every cash value policy should be audited every 2-5 years. If you, a parent or grandparent own, or are a beneficiary of a permanent life insurance policy, an audit will **give you an objective measure of how that "asset" is performing** – against the projections made when it was bought, as well as what could be available in the current marketplace.

Certainly, trustees have a fiduciary duty to initiate a professional review of any and all policies owned by a trust on a regular basis. Business-owned and buy-sell policies should also be assessed. So should life insurance policies designed to pay supplemental tax-free retirement income (a subject of another Special Report that I've written).

I **remind you of my offer to donate $500 in your name to the charity of YOUR choice for completing a life insurance audit** as described above (not valid for residents of NY).

The process is free, virtually "painless" and there is absolutely no obligation whatsoever. The audit results will clearly be one of two different outcomes.

Either you are best positioned as you currently are in regards to your existing life insurance contract(s) or you will be able to **either substantially REDUCE your premiums OR… significantly INCREASE the death benefit.** Or some combination of the two along with potentially enhancing the policy guarantees.

There is no way that you can lose. My offer of a free audit of your life insurance policy is totally risk-free to you and your beneficiaries.

Both you and your favorite charity only have upside potential!

What a couple of our clients say about our Audit Process:

"I was so impressed with the independence of the audit that I have recommended that individuals who have their own business and clients, for estate planning purposes, also utilize this audit. I believe the objectivity of the evaluation is very crucial and that the audit was extremely well conducted"

Dennis D. Sutton
Lawyer
Burt, Blee, Dixon, Sutton & Bloom, LLP

"As trustees for irrevocable life insurance trusts, I believe that reviewing life insurance policies owned by the thrust is one of our more difficult fiduciary responsibilities. The Ash Life Insurance Audit is an excellent tool for trustees to use when seeking to objectively assess life insurance…"

Catherine Borkowski, JD
VP & Trust Officer
First National Bank & Trust

A little about the author

Thank you for taking your time to read this Special Report. My name is Mark Orr and I am a **fee-based Certified Financial Planner** and I own a boutique Registered Investment Advisory firm. I've been a financial advisor since 1997. Before that I was in the real estate development business as well as being a partner in many start-up companies in a variety of industries.

Probably the largest part of my business is completing life insurance audits and using life insurance creatively to meet many client goals. It is very rewarding to make a huge difference in the lives of my clients (and their beneficiaries) as you have seen in the examples in the Report. You will get a taste of this creativity in the BONUS section.

My money management firm, MORR Capital Management, Inc. is paid fees by my investment clients to manage their money instead of being paid on a commission basis.

This way, my clients and I are sitting on the same side of the table. We concentrate on preservation and growth of assets rather than trading and speculating.

The client's money is held at one of the well-known custodians (you see their commercials on TV all of the time) and is mostly invested in no-load index and institutional mutual funds and ETFs. These well diversified portfolios are individually designed based on the client's goals, dreams, time horizon and their tolerance for taking risk.

I also publish a free e-newsletter. My thousands of loyal readers live all around the world and if the number of people who they tell about my e-newsletter is any guide – they love it!

They receive financial tips, ideas and strategies that cannot be found in any other single source. If you aren't already getting your issues, you can go to:

www.SmartFinancialTips.com

and register to receive it immediately (It's a FREE lifetime subscription right now, although that will likely change soon).

For those of you who are interested in or know someone who is wanting to learn about long term care insurance in plain English and get lots of "insider tips" and planning ideas I also have **another PDF report available that teaches them all about it for free:** **www.theLTCguy.com**

One of the things people learn from me there (and probably nowhere else on the internet), is **how to get unadvertised discounted premiums that are not available to the general public**. These special discounts can really add up over the years so people who go to my site are very thankful!

A fun and also emotionally rewarding area of my practice is showing people, even those with high incomes, how to pay off their 30 year mortgage in about 12 years – WITHOUT sending the lender larger or more frequent payments.

You probably already have your mortgage paid off (the strategy even works on paying off second homes or rental properties) but you might want to tell your children or grandchildren about my web site: **www.CutYearsOffMyMortgage.com**

In Summary

The life insurance industry is ever evolving as are the other financial areas like life settlement and premium financing are. To maximize an important asset such as your life insurance policy (and learn all of your financial options) is just smart business.

I hope that you have not only learned many important aspects of the financial asset called Life Insurance and how not to ignore a policy that you or someone that you care about owns, but also enjoyed the reading the Report.

But this new knowledge, without any subsequent action will not benefit you or your heirs. The price for inaction or procrastination could be high. The price for the peace of mind, that your current life insurance policy(s) is the best available, under today's conditions and insurance marketplace is taking the first step – getting your policy audited by a competent team of professionals. It's YOUR money – make the most of it!

Again, the life insurance audit is free and there is absolutely no obligation whatsoever. If we can substantially improve your position, then we would be honored to earn your business. **The results of the audit will be very clear to you. There will be NO gray area**.

Either what you currently have is the best available in your case, or there is dramatic room for improvement (a substantial decrease in premiums or increase in death benefits for the SAME premium **or a policy that will NOT lapse**). Of course, there is the $500 charitable donation that will be made in your name. I have budgeted $50,000 for these donations and looking forward to deducting all of them on my next tax return!!

I encourage you to **call me now at the number below so that I may answer any questions that you may have about auditing a cash value life insurance policy** that you have an interest in (either as the owner/trustee or as a beneficiary).

Although this Report is focused on life insurance audits, many of my readers have been exposed to many strategies elsewhere (both legitimate or otherwise) to profit from life insurance by using premium financing along with life settlements.

Since it is likely that my readers are pretty financially savvy, I think they would find the BONUS section of this report to be of great interest.

These readers are usually very open-minded to **opportunities to create wealth for either their loved ones and/or charities** that they are passionate about supporting.

To meeting all of your financial objectives as efficiently as possible…

all the best… Mark

For more information about how our very experienced and dedicated team of life insurance professionals can provide you with an objective Life Insurance Audit that may benefit your own financial, estate and/or legacy planning, please contact me:

Mark J. Orr, CFP
Certified Financial Planner
Registered Investment Advisor

770-777-8309 **mark@SmartFinancialTips.com**

2050 Marconi Drive Suite #300 Alpharetta, GA 30005

PS -- Please feel free to GIVE this document to anyone that you care about in its full and original form. Your friends, colleagues and family will thank you for it. However, please note that since it has a copyright, this Report cannot be altered or changed in ANY way and MUST be kept in its complete and original form.

PPS – Don't forget to read the BONUS section that begins on the following page!

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This Report is for general information purposes only. Mark J. Orr is not yet insurance licensed in ALL 50 states. You should seek tax or legal advice from a qualified professional before making any decisions on what is contained herein, since the author has no idea of what anyone's individual financial situation actually is, without speaking personally with them.

BONUS SECTION

Many of my readers are very interested in life insurance topics that they have read about in Business Week magazine or the New York Times or the Wall Street Journal.

These articles are on how wealthy seniors (those with a net worth of $3-4 million or much more) are profiting from the life settlement market. These profitable opportunities have been available for years and although the rules are changing somewhat, there are likely opportunities to profit as you read this.

You are welcome to contact me about these potential ways to create more wealth or to give to charities without using your own cash. I **utilize dozens of advanced planning strategies** to help my clients. I'm confident that you will be very happy that you did.

But the reality is that there are more people who do not qualify for these types of opportunities due to their age or net worth limitations.

So I'd like to give you just a couple of examples of how I work with clients that want to purchase life insurance for the purpose creating wealth that are not yet in their early seventies or are not worth $3-4 million or more. I have other strategies too.

But before we get into a couple of bonus topics I wanted to write a few words about estate planning. Now I realize that this is not a pleasant subject, but it is a critical one and life insurance usually (but not always) plays an important role.

Bullet Proof Estate and Legacy Planning

As sure as I'm sitting here writing this short section I can almost guarantee the readers of this report that they either: 1) have no estate plan in place, 2) have an outdated or incomplete plan or 3) have a plan with substantial room for meaningful improvement.

I am not an attorney and I do not play one on TV, however it is rare when I see a family that has everything they need to have a flexible and yet bullet proof plan in place that meets ALL of their legacy goals and others that they haven't thought about yet.

A wealth transfer plan, which includes your estate plan is ONLY done right and is complete when:

1) It accomplishes all of your pre-set financial goals both during and after life
2) Is flexible so it can change should your circumstances change
3) You maintain full control all assets during your life (and spouses) including your business that you want to keep control
4) Both during your life and after your death your assets are protected from creditors, potential claimants (lawsuits) and ex-spouses who divorce a family member
5) After your death (and your spouse) ALL of your wealth – every nickel of it – goes to your family (and perhaps charity) bypassing the I.R.S. … or **even increases the wealth your family** will receive tax-free and fully protected from potential wolves.

In other words we are talking about **creating an impenetrable financial fortress** – one that is protected from estate taxes, creditors and the like from this day forward.

If your current "estate plan" doesn't address all of these areas, contact me and let's talk about how a team of qualified and experienced advisors including a financial planner who is a life insurance specialist, CPA, estate planning attorney and banker who work together as a team to create a seamless plan <u>using a combination</u> of time-tested plain vanilla strategies. This will be the subject of a future Report that will truly amaze you.

Again my clients benefits from many unique financial strategies that space doesn't permit here. **First let's talk about creating extra retirement income out of thin air** – with virtually no risk whatsoever. We do it every week for the right type of clients.

Arbitrage Bonus #1

Like many of my financial strategies, they do NOT apply to, nor are appropriate for everyone. But for those clients that are "right" we can literally create money or additional wealth out of thin air.

In general terms, the "right" client for this strategy is generally between the ages of 70 and 87 years old and is being successfully treated for one or more medical conditions. If you are a senior or have a parent or grandparent or someone that you care about, this edition should be very interesting to you.

It never ceases to amaze me that when I submit a life insurance application to many insurance carriers, **how differently they each look at the same health records of an individual and come up with different (premiums)**. This is the crux of the strategy.

Sometimes an insurer will decline a client, while another insurance company will "rate" the client a table 2, 3 or 4. A table rating is when an insurance company does want the business… but only at an increased premium. For each table rating the premium costs goes up by 15-25%, depending upon the carrier. So a table 4 rating would cost the client 60-100% MORE than a standard health rating.

Well a smart financial planner can take advantage of how different insurance companies look at the SAME health records of an individual and make different conclusions and therefore offers to the client. So this whole financial strategy rests on that fact. And this benefits the client.

There are two parts to the strategy: life insurance and a single premium immediate annuity (SPIA). A SPIA is where one gives a lump sum payment to an insurance company and in return they get an income (usually paid monthly or annually) for the rest of their life. So if one bought a $100,000 SPIA, the insurance company would make a payment to the client for the rest of their life.

The payments typically stop at death (after just one live or both depending) - whether that occurs within the first year or the client lives beyond age 100.

Now, just so you know, there are SPIAs which are based on joint lives or offer a minimum number of years of payments (such as 10 or 20 years) irrespective of when death occurs. But in those cases, the SPIA payments are lower and therefore don't work well with this strategy.

Additionally, we will be shopping for a medically underwritten SPIA as opposed to one that is simply and ONLY based on the age of the client. Being medically underwritten (depending upon the health records of the client) we can often get a higher annual income payment.

Basically with life insurance, the insurance company thinks that you are going to live longer than you do and with a SPIA, you think you are going to live longer than an insurance company does.

So to go back to the first couple of paragraphs, we want to have many different insurance companies look at the same medical records of an individual and get two of them to come up with two extremely different conclusions.

I will typically "shop" the health records with 50 or so top insurance companies in order to find the biggest "spread" of medical underwriting conclusions.

The insurance company that thinks the medical records indicate a shorter life expectancy will be the one that we'll use to buy the SPIA. The company that takes the most favorable view of the same medical records will be the one that we'll purchase life insurance from. We just take full advantage of the spread.

Let's look at an example

One client has $2 million dollars in a fixed income portfolio (bonds and CDs). His average interest rate on this income portfolio is 4.5%, so it is giving him $90,000 of income per year. He also has other investments in the stock market, etc. He is 78 years old and has a few medical conditions that he is being treated for but that doesn't stop him from playing golf and living a very normal life.

For this example, let’s say that he uses the full amount of this portfolio towards this strategy. He could use just half of it or maybe as little as $250,000. Obviously, the financial results would be adjusted pro rata accordingly.

Based on his age and health, we found an insurance company that offered the highest medically underwritten SPIA annual payments which was $285,000 per year. Of course, with this SPIA, those payments stop at death, which would not be good for his spouse or heirs.

That is where the life insurance comes into play. We can buy life insurance, using part of the SPIA payments which will immediately replace the $2,000,000 at his death -- whenever that occurs. So we then get life insurance from the company that looked at the same medical records in the most favorable light. In this case we found a carrier to agree to an annual premium of $121,000 to fund a $2,000,000 life insurance policy.

So let's do the math...

We turned our $2,000,000 bond/CD portfolio over to the insurance company to purchase a medically underwritten SPIA that will pay the insured $285,000 each year for as long as he lives. Think of it as a pension that cannot be outlived.

In order to recoup the $2 million at his eventual death, the life insurance policy is purchased at an annual cost of $121,000 from another carrier. That leaves net income of $164,000 per year until his death. Compare that to the $90,000 annual income from the CD and bond portfolio.

This strategy produced $74,000 more guaranteed annual income. Interest rates would have to rise to about 8% for his old portfolio to match the new income of $164,000. But also, as many seniors will remember, interest rates can go lower too, as they did in the 2002. But this $164,000 is <u>guaranteed</u> to be paid until his death.

At that point, the life insurance proceeds will replace the $2 million for the benefit of his wife, heirs or charity. And if she wanted to, we could use the same concept for her to increase her guaranteed income.

This strategy also has some very favorable income tax advantages (savings), as well as getting the $2 million out of his estate for estate tax purposes (if properly structured). But for many, just the substantial extra guaranteed lifetime annual income (much of which can be tax-free) makes this strategy very attractive.

We **created money out of "thin air", by simply taking advantage of the fact that each insurance company takes a different view of each set of medical records**. It requires a lot of work on my part, but the results for the client or their loved ones speak for themselves in the "right" situations.

This "free" money might be used for all kinds of purposes. Increased lifestyle (live it up!), "painless" charitable giving, fund college or educational expenses for the grandkids, etc. I have one couple that wants to use part of this "new income" to pay for long-term care policies for themselves.

Or... if extra annual income wasn't the goal and estate maximization was, the extra $164,000 could have funded a much larger life insurance policy (maybe to $4,000,000 and still have some increased income leftover each year).

And of course, if replacing the ALL of the $2 million wasn't a priority, the net guaranteed income stream could be greatly increased as well. There is lots of flexibility built into the basic strategy. It’s all about YOUR goals and circumstances. They dictate everything

Not everyone has a $2 million dollar CD portfolio. But depending upon one's age and health, **this strategy can be very powerful at even $250,000** and perhaps make a $10,000 - $30,000 increase in lifetime annual income on a guaranteed basis.

Similar strategies can raise tens or hundreds of thousands of dollars for churches, schools or any charity or non-profit.

I have even more potent strategies depending upon the circumstances and goals of the client that I cannot write about as they are proprietary and cannot be released to the general public. I work with clients on a one to one basis with these other strategies instead of publishing them.

I'll show you more ways that someone like myself can really add value to your financial life. There's a lot more where this strategy came from for those that work with me!

If you aren't 70 years or older yet, why not pass this report along to someone that you care about that may be able to benefit from this unique strategy. You could make a huge difference in their life!

Bonus Example #2

This scenario is about a man who is age 72 and worth nearly $2 million. He wants to buy life insurance with the purpose of selling it in 2-3 years (he could always change his mind and retain it if his health was to deteriorate or he had a change in financial goals).

The problem is that he does not want to pay the approximately $75,000 a year in premiums for a few years in order to own a $2 million policy that could be sold later.

But even though he is the right age, under most programs that I am aware of today, his net worth doesn’t qualify for premium financing.

What is a potential solution?

Well in this case, I found that he currently owned a life insurance policy with a $250,000 death benefit and just under $200,000 in cash value in the policy. His premiums were very low and affordable.

I suggested that he borrow the $75,000 annual premium from his existing policy. There would be no out of pocket interest due. There was plenty of money to pay the premium for 2 years and still keep the policy in force. Should paying a third year of premiums be desirable or necessary to get a better future offer in the life settlement market, there were additional funds available in his portfolio, but it is likely that two years of premiums would be enough.

Please note that when money is borrowed from a life insurance policy, if death occurred while the loan was outstanding, the death benefit proceeds would be reduced by the amount of the loan balance.

But in this case, if he would have passed away during the loan period, he now had an additional two million dollars of life insurance that would go to his wife or heirs, so he wouldn't have lost anything.

The $2 million dollar policy was put in place and after two years, it was sold in the life settlement market to the highest offer of $460,000.

So basically, he "premium financed" his own policy with no bank fees and with no interest to pay. Since there was really no money paid out from his own pocket, the profit percentage from the life settlement had an infinite return.

If he had paid the two years of premiums out of pocket, he still would have nearly tripled his money in 2-3 years. Should the worst happen and if he died during the early policy years, his spouse would have received the $2 million in death benefits.

The only real unknown of this situation was that we had no idea of what the life settlement market would be two or three years in the future.

Now what if you don't have enough cash value sitting in an existing life insurance policy to borrow the premiums for yourself?

There are other “dead money” sources that you might easily tap to enter an opportunity such as this. Low earning CDs and unneeded money market funds, muni bonds, and real estate are just a few of the places we find the resources to buy large amounts of life insurance in which the life settlement market may offer an attractive exit strategy.

How much life insurance can someone buy?

It comes down to net worth during the retirement years. As a general rule, if someone is worth $750,000 they should be able to justify that same amount in life insurance less any existing coverage in force. I wrote about insurance financial “capacity” earlier.

Are you worth $1.2 million? Then that would normally be the maximum amount available (less existing life insurance coverage in force).

Some insurance companies will allow an amount of death benefit per spouse which is equal to the combined net worth of the couple. So if Mr. and Mrs. Johnson are worth $2.3 million, it might be possible for each of them to obtain that amount of coverage. Again, existing policy benefits would be subtracted from the maximum.

Many people tell me that they can afford to buy a lot more life insurance and are willing to pay premiums to do so. But the insurance company won’t allow it and they get MAD!

I don’t make the rules, nor can you and I change them. The life insurance companies don’t want their insureds to be worth more dead, than alive. So we do have limitations.

Bonus Example #3

The following is an example of real creative planning, if I do say so myself.

This case is about a 65 year old man who is worth about $3 million and in good health. He might have the net worth for premium financing, but he is too young for most if any or at least an attractive financing plan.

Why?

Because, the finance company doesn't want to wait up to 30 years to get their investment and profit back, since it is very possible for a health 65 year old to live until age 95.

But he liked the idea of the opportunity of the life settlement market.

What we decided to do was to purchase a 10 year convertible TERM life insurance policy with a death benefit of $3,000,000 for an annual premium of about $9,000 per year.

The policy was convertible to a permanent life insurance policy available from the same company --- WITHOUT evidence of insurability at any time until age 75. That means, no matter what his health would be up to 10 years later, he could get a new cash-value policy based on his age at the conversion date and at the same health rating that he had on his term policy (although at a much higher premium).

Now, who knows what will happen in the life settlement market a decade from now. But under current market conditions, an average 75 year old male might get about $600,000 for the policy.

So if he pays the annual premium for 10 years, he would have $90,000 into the contract. If at any time he passed away, his beneficiaries would get the full death benefit.

If he lived and decided not to continue on with the converted policy, there would be a market for it. We just don't know what the ultimate offers will be in the future. But if we guess it might be something similar to the present, he would have the potential to earn about $500,000 profit. But don't try this alone, there are big snags to be avoided.

The moral of these examples, is that we can be creative and create wealth with life insurance. I firmly believe that life insurance is one of the most important financial assets available to Americans is highly UNDER utilized.

What About for Those People in Their 30's to 50's

If you are still in your working years and reading this bonus report, and thinking that all the "good stuff' is for the seniors, don't despair. I have good news for you.

Or maybe you are thinking about your children or even grandchildren and you wish that they would learn how to use life insurance for living benefits as well as death benefits.

One of the areas that I work with younger clients all of the time is how to use life insurance today in order **to generate TAX-FREE income during retirement** – with none of the inflexible rules of IRAs and 401Ks. And unlike non-qualified money, cash values inside of a life insurance policy grow without taxation. I call them **Super ROTH IRA's**!

I don't have room to write about it here, but you can get another Report for free if you go to this link which will bring you to a website where you can download the PDF file:

www.SmartFinancialTips.com/Harvest

I'm available to answer your questions about anything you've read in this BONUS section, or to learn about other smart financial strategies, so please call me.

For more information about life insurance audits or how you might use life insurance in more creative ways to meet your own income, wealth-creation, estate and/or legacy planning goals, please contact me:

Mark J. Orr, CFP
Certified Financial Planner
Registered Investment Advisor

770-777-8309 **mark@SmartFinancialTips.com**

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