

# Life Insurance Optimized

## SWAPP – A Revolutionary Exchange Based on Market Value

by David Cherkas

**B**efore the secondary market for life insurance emerged, consumers who wanted to retain coverage while eliminating premium payments had few options. The secondary market for life insurance is changing that. Life settlements have introduced an effective exit strategy for those who no longer need a given policy.

The cost of maintaining insurance for older people with a high net worth presents significant challenges. Underperforming policies often put the annual outlay beyond a policyowner's ability to pay the premiums. This is due to low interest rates, combined with longer life expectancies. But, the need for adequate coverage remains. Nonforfeiture laws allow the policyholder to surrender the policy for cash or exchange it for a paid-up policy with a reduced face amount. However, because both of these options are based on cash-surrender value, they frequently undervalue the policyowner's asset. As a result, there is a compelling need for paid-up benefits based not on cash value, but on market value.

### It's Time to SWAPP

Clients can now transfer an underperforming policy's market value into a new paid-up benefit. By tapping into the original policy's market value, SWAPP provides more coverage than a traditional exchange – more than cash value would provide. It allows qualifying clients to retain a significant amount of coverage while reducing or eliminating future premium payments. This is a revolutionary shift in how life insurance assets are managed. Instead of accepting the carrier's nonforfeiture options, advisors are having their clients' policies appraised on the secondary market and clients are learning what the policy is worth in cash and as a paid-up benefit. This gives clients more flexibility to meet their financial planning needs.

Ideal candidates for SWAPP are high net worth people over 65 who want to reduce or eliminate premium payments while retaining coverage. Typical scenarios

include the following: the client's insurance is performing below expectations, a client retires or sells a business, the insured experiences a change in health or marital status, key employee coverage is too expensive after an executive retires, and client gifts for premium payments are now subject to gift tax.

Many advisors have experienced a situation in which a client needs a certain amount of coverage for estate planning and has a target amount they want to pay. Options were limited before the advent of the secondary market for life insurance. But, now with SWAPP, the client can exchange the underperforming policy and retain a portion of the required coverage premium free. Then, the client can purchase a new policy with a lower annual outlay.

This combination gives the client the coverage he or she needs while reducing premiums and freeing up assets for other potential investments.

For example, one client, an 83-year-old man, wanted to lower the annual premiums on his \$4 million universal-life policy, but he needed to maintain the same level of insurance. A traditional 1035 exchange could not accomplish his goal. The advisor recommended appraising the policy, which resulted in the choice of a \$1,475,000 life settlement or a \$2,300,000 paid-up policy with SWAPP. After choosing SWAPP, he was able to get an additional \$1.7 million policy for a much lower total outlay, giving him the \$4 million of insurance he needed, while reducing premiums and freeing up assets for other potential investments.

In another version of SWAPP, the original policy's ownership is exchanged for a guaranteed amount of the policy's death benefit. This amount, which is based on its market value, is paid to an irrevocable beneficiary of the client's choice. This option provides yet another exit strategy for clients who still need a certain amount of insurance, but no longer want to pay premiums.

Consider this example: A trustee was concerned about maintaining the premiums on a \$14 million universal life policy. The insured was a 70-year-old woman.

Premiums, which already exceeded \$260,000 a year, were scheduled to increase dramatically on the underperforming policy. With traditional options, the client would have surrendered the policy to the carrier for \$850,000 or exchanged the original policy for a \$2 million paid-up policy from the carrier. The advisor recommended appraising the policy, which provided the option of a \$2,125,000 life settlement or a \$6 million guaranteed benefit. The client chose the guaranteed benefit. The advisor was then able to get \$8 million of replacement coverage at standard rates, reducing annual premiums by more than \$80,000.

In short, as life circumstances change, clients need new tools to increase the efficiency and performance of their life insurance holdings. SWAPP gives them an extraordinarily powerful new option to maximize their estate.

### A New Role for Advisors

One of the pillars of sound financial planning is the regular appraisal of a client's real estate, businesses, equities, and other holdings. Historically, life insurance policies have been excluded from such evaluations because there was no market for them. How times have changed. Life insurance policyowners have never had as much choice as they have today. As a result, it has never been more important for advisors to understand the value of their clients' assets and what opportunities are available.

With life settlements and now SWAPP, it is essential for life insurance to be included in any appraisal. For this reason, an increasing number of advisors consider it their responsibility to notify clients of the possibilities for increasing the value of their assets via the secondary market. By doing so, advisors and clients can rest assured that managed assets are performing to their full potential. □

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