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Todd: [0:00:18] Hey everybody, welcome to another edition of The Prosperity Podcast, this is No BS Money Guy Todd Strobel. Once again, we have my cohost, bestselling financial author Kim Butler with us today, welcome Kim.

Kim: Hello Todd, happy to be with you today and ready to chat about life settlements for our listeners in a nice generic way that they can do some learning about.

Todd: Super. Well life settlement is, I've been in this industry for about 25 years, I was made aware of the life settlement market, while I saw it a little bit when I worked for the bank because at the bank, a lot of the trust departments were buying these things and just came in to personal contact with it about 5 years ago and at first brush with it, I kinda had a problem. So if somebody's listening and at first reaction you feel the same way, I encourage you to hang in there, keep getting information and realize what a valuable service this provides to everyone involved not just the investor. So with that Kim, won't you kinda start us off and talk about what this market is?

Kim: Absolutely. Well, I think I've had about 10 or 12 years of experience as life settlements and I too had an initial somewhat even negative reaction to it but the life settlement is actually been in the text code since 1913 and it is simply your ability as an investor to buy an existing life insurance policy from somebody that is selling it and what the 1913 court case indicated is that this life insurance policy is an asset class just like a piece of real estate, just like a desk, just like anything else that a buyer and a seller can come to an agreement with and transfer ownership on. And so the life settlement industry is a new asset class for many, many people as you said was purchased by large institutions, banks, hedge funds, pension plans, etcetera for many, many years and sometime around the early 2000s became more and more available in the retail market and in the late 2000s, it became much more well-known because life settlement funds started to be created where the little guy could come in and spend 100,000 dollars and have a group just like you would in a mutual fund of stocks, you'd have a group of stocks, well this is a mutual fund of life settlements, you have a whole bunch of life settlements in other words a whole bunch of policies that you are buying and I have absolutely loved this investment, it's been very effective for our clients and it does do a good job for the seller as well which I love, and I love it when an investment can be win – win and the bridge loans that we talked about quite a lot are a good example of a win – win as well. But in this case, the seller is typically somebody in their 80s, they often have a terminal medical condition and they own a life insurance policy and that death benefit, the life insurance policy's death benefit can be sold for an amount that is greater than the cash surrender value of the policy. So let's say you have a 5 million dollar policy and then has a million five of cash, you might actually be able to sell that for 2 million dollars so it's a win, W – I – N, for the seller, it's a win for the investor because they spend 2 million and get the opportunity to get 5 million or in this case with a lot of our clients that policy is put in to a fund and so a whole bunch of people spend the 2 million to get the 5 million and it's just a fabulous way to have a completely uncorrelated asset in your portfolio because it does not matter what's going on in the stock market, the bond market, who's in the presidency or what interest rates are doing, the old the only thing guaranteed in life is death and taxes is true and because these are death benefits paid by an insurance company, we can be confident in the payout.

Todd: Got it. And again, you mentioned the big buzz word of the day which is uncorrelated or non-correlated simply meaning that a portion of your investment should be separated from the market. If you're in stocks, if you're in bonds, if you're in options, even to some extent if you're in precious metals, all of these are kind of caught up in a wheel or a system that as money moves, you can win or lose big time. So having something that's non-correlated, in other words, these person's life is driven by the fact that they're nearing the end of their human life span and they usually have an underlying health condition, there's been a doctor's evaluation at least one, many times more than one of their personal health records to drive an expectancy, a life expectancy. So we know how much it cost to pay the premiums, we know when they're anticipated life is supposed to end which of course that's never guaranteed and that allows us to determine a price or a value in the marketplace, correct?

Kim: Absolutely. And that ability and how solid and actuarially based it is what gives the investor the opportunity to be very confident about low double digit returns and the seller to be very confident that it's a win for them and it is often tax is a capital gain, it does depend obviously IRA money can be used for this as well in which case it has IRA tax law but it's an environment where the individuals that play, the managers of the fund and the investor and the seller all handle their relationship through an escrow account so it's completely controlled, there's no way that anybody can abscond with the money and again, it gives everybody a lot of confidence so not only do we have this non-correlated or uncorrelated asset, we have one that can subscribe to our way of thinking about risk. And anybody that has heard our conversations in the past knows that our risk tolerance for our own money is zero, we are not interested in losing money, period, and we believe that most of our clients are not interested in losing money either. And inside the life settlement arena, the capability to lose money is just almost not there and so of course not guaranteed, we have to be careful in saying that but it is a very, very secure return for a very, very secure product.

Todd: Super. And one of the first questions that always comes up is how are life settlements related or not related to viaticals?

Kim: Sure. So the definition of a life settlement is somebody that has a 2 year or greater life expectancy and the definition of viatical settlement is somebody that has less than 2 years. So typically what you see in life settlement funds, they're known as senior life settlements because they're dealing with people that have at least a 2 year typically up to about a 7 year life expectancy and that's important as well because we're not talking about a 70 year old with a 25 year life expectancy, we're talking about an 85 or even a 90 year old with a 2 – 7 year life expectancy and again, actuarially based and medically underwritten. Viaticals are typically done on younger people that have a very short life expectancy often because of some type of disease and that is not what we're talking about. Viaticals, certainly nothing wrong with that for people that wanna do that but this is the senior life settlement market, completely different.

Todd: Got it. And again, there is a sort of a stigma still in the marketplace in the 1980s and the 1990s when AIDS was really becoming prevalent in the news, there were a lot of younger people particularly men that were diagnosed with AIDS who needed money to fund these research programs or whatever you wanna call them to try to live longer. So one of the things that they did was they sold their life insurance policies, well, as a good news, their life expectancy of these people were extended in some cases from 6 months or a year to an additional of 10 or 20 years and we continue to see that get pushed out even farther which is great but it made those investments where people thought they were buying a life insurance policy with a very short rate of return extended out. So again, these are not viaticals, there are health conditions that are being evaluated but you're also dealing with a population that is nearing the end of their life expectancy anyway and to me, that's important.

Kim: Absolutely. We like it when we know that we're helping other people and that's what the life settlements do and there are variety of funds available that provide this kind of thing, there's a lot of information out there, there's been good and bad without a doubt and so people should look in to this and get educated about it, get confident about the things that did go wrong in the early years when escort accounts were not used and when the effort was not made to be super clear on actuarial science. Now, of course nobody but God knows when somebody's gonna pass on but today's life settlement providers typically get 2 or 3 different doctors' opinions and they have a couple of different actuaries on staff that are looking at these policies. And like anything, science has been applied to this arena and its made it better and better for the investor and we really like providing funds where the investor is very close to the picture and they can actually look at the variety of policies that are available and have whatever little knowledge they wanna have about this arena because we think the more information that an investor has, the better educated decision that they can make and the more control that they can have over their money. And as you know, control is the fifth principle of prosperity that we espouse of our 7 and while you couldn't literally pick a policy for most investors, you could if you were super wealthy family but you do have to be an accredited investor to be involved with life settlements. The definition of accredited is a 1 million net worth or 200,000 – 300,000 of income, 2 for single and 3 for married or I might have that backwards, somewhere, help me with that definition, is it 200 or 300?

Todd: I think it's 250 and 350 but…

Kim: Oh okay, there you go, the rules change sometimes. So that definition of accredited investor is something that is a nationwide definition and some states are super picky about it, others not so much but one does have to be an accredited investor to invest in life settlements but even if you aren't there yet obviously, our goal is to get you there and so it's good to know that these exist and a lot of people, they actually get to increase their confidence even if they can't invest in them themselves today, maybe they've got a 401k plan and they know that it's getting close to tipping them over in to accredited investor status and if they ever leave work, they would wanna roll over that 401k plan into an IRA and invest in life settlements and it's nice to know that those are out there because they don't have to worry about investing in something with their 401k is gonna become a 201k like happened in 2008.

Todd: Super. Well just to kinda summarize, the seller is an older person that has a permanent life insurance policy that most likely has cash value in it but they would like to see the effect of the money while they're living. A lot of times we see this done in conjunction with giving grants to universities or charities, they just want to do something with that money while they're still alive so they're able to get more than their cash value and they are released from the obligation of making the current premiums by selling their death benefit which is the insurance company's promise to pay in the future upon their death. As an investor, I'm purchasing that death benefit by giving a cash amount of money to the seller and agreeing to pay any future premiums. Now, here's the difficulty is that if you have 500,000 dollars or you have a million dollars and you want to buy in to the life settlement arena, most of the time even at a million dollars, you're only talking about being able to buy 1, 2, maybe 3 policies if you're buying those entire policies. Now, we know that the law of large numbers allows us to diversify and get a consistent rate of return so how is the market address that?

Kim: Well, it is created life settlement funds which enable an investor to put in, first of all, smaller amounts of money, 100,000 minimum and then second of all for that 100,000, you may end up with 30, 40 or 300 depending on the type of fund, different policies inside that fund. So 100,000 dollars might buy 50 policies or 300 policies thereby heavily diversifying your asset and that's so important in today's world, people know that they can't put all their eggs in one basket and this enables them to have high, high diversity, it also enables them to be assured that premium payments will be made because the fund handles all of those premium payments and make sure that those policies stay in force and that the premiums are made on them every single year in a very optimized fashion, in other words, you wanna only be paying what has to be paid and that's all handled at the fund level so that the individual investor doesn't have to deal with it.

Todd: Got it. And typically as an investor, we mentioned the 100,000 dollar minimum, what's the time frame of my commitment and what are those returns look like?

Kim: So timeframe is typically in the 7 – 10 year mark and returns are low double digits per year so 10% or 11% per year and many of the funds pay quarterly payout once maturity start to occur which is usually around the 3rd or the 4th year. So there is some income that can come from these funds as well, I wouldn't wanna think of it as like monthly cash flow but quarterly payouts. Now, of course they're based on maturity so they're gonna be different, every quarter just whoever has died in the fund that quarter, those are the ones that are going to be paid.

Todd: Got it. So I commit my money, say 100,000 dollars to a 7 year term or whatever it is but if people start to mature which means passes away in year 3, again, my money starts to come back to me as these maturities happen.

Kim: That's correct.

Todd: Super. Anything else? Again, resources for this, I would invite people to go to partners4prosperity.com. Any other resources or things you wanna add?

Kim: Well, I know that there are some additional blog posts that we've written about the life settlement arena and those of you who were tracking down on partners4prosperity.com/blog. And then if you are accredited or close to having that million dollar net worth, reach out to us and we have some specific websites that we can send you to to get additional information, some specific private placement memorandums or PPMs which are the long legal documents that support these funds that we can send you if that's something that is of interest and we're always happy to answer questions via email and the contact us form on our website. If people have them even if they're not ready to invest yet, maybe you know somebody that is or you are close yourself and just wanna learn about it, we love to teach.

Todd: Thanks so much to my cohost, bestselling author Kim Butler. This is no BS Money Guy Todd Strobel for The Prosperity Podcast. Take care everybody.

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