

The Magic Deal Maker

The often-overlooked value of life settlements can add value to a business sale

By **Marvin Tarnol** | The Tarnol Group
[Contact Marvin Tarnol](#) | [Visit Website](#) | [About The Author](#)

One of the most useful tools that are used to close transactions that may need that "magic" push is life settlements. So little is known about this remarkable vehicle that can turn a difficult transaction into a closed transaction. Life settlements, a hidden valuable asset, enable policy owners to sell a current life insurance policy to a financial institution. In turn, the policy owner receives a discounted amount of the face value in a lump sum.

For example, consider the use of life settlements in the sale of a business where the offering price falls short of the asking price. In this example there was a substantial difference of \$1 million and neither side was willing to budge. The seller corporation owned \$9 million of key man life insurance some of which was term and some of which was whole life.

The cash surrender on the permanent portion of the policies was \$600,000. All policies were submitted by an expert in life settlement for appraisal and it was determined the best offer to purchase the policies was \$4 million. As the key man policy was no longer necessary, the offer was accepted and the result was a closed transaction. With the additional funds of \$3.4 million the seller realized his asking price and much more.

A life insurance policy is considered personal property, like a house, car or stocks and bonds. Like those assets, it can legally be bought and sold. You actually transfer all rights and obligations of your life insurance policy to a third party for a percentage of the face value of that policy. The full value of the policy will eventually be paid to the third party.

A policy carried on the books as "no value" and ready to be dropped may turn out to be worth a great deal in a life settlement. Term policies can be considered and have been purchased. Other types of policies that can be purchased include universal, whole life, variable, and group. Individuals, trusts, and companies can own policies.

There may be major pitfalls that a financial advisor must consider when life policies are not taken into consideration in a business sale. In another case, a company was sold and its advisor allowed the key person life insurance policy, which was term, to pass to the purchasers of the company as part of the assets. The purchasers of the company were able to sell the policy for a very substantial amount, because they knew about the potential value of life settlements. The advisor's errors and omissions insurance had to pay the original owner to settle a claim arising from the advisor not obtaining the value of the policy for his client.

There are some qualifying elements to life settlements that must be met before it can be utilized in a business sale or for estate planning. Each case is evaluated on its own merits but usually the insured is 65 years of age or older and the policy must be in effect for at least two years.

As circumstances change, the ability to obtain cash from the sale of a life insurance policy can be extremely valuable, offering an opportunity for both the advisor and the policyholder.

About The Author

Marvin Tarnol is the owner of The Tarnol Group, in Encino, California. For the last 30-years Mr. Tarnol has served the financial planning needs of many companies and individuals. He can be

reached at mtarnol@thetarnolgroup.com or 800-350-4542.