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IN THIS ISSUE***Life Settlement
NumberCruncher***

Software designed
to help you decide
whether to keep or
settle life
insurance policies

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FEATURE STORY***Life Settlement NumberCruncher*****Software designed to help you decide whether to keep or settle life insurance policies**

By Donald H. Kelley

Kelley Rating (one asterisk = lowest, to five asterisks = highest):

- * Ease of navigation, design of interface and learning curve ****
- * Instructional documentation and help system ****
- * Carries out the goal of the product as advertised *****
- * Overall usefulness ****

As wealthier clients age, there may come a time when they need to decide whether to continue paying premiums on a life insurance policy or dispose of the policy through a life settlement. These days, even [Wikipedia](#) is claiming that: "A growing number of experts now believe that informing clients about offering life settlements should fall under the fiduciary duty of a financial advisor." During the estate-planning process, this concern extends to other advisors, such as attorneys and accountants.

The new *Life Settlement NumberCruncher* program by [Steve Leimberg](#) and [Mike](#)

[Weinberg](#) is an excellent tool that helps you evaluate whether to keep or settle a policy.

The secondary life insurance market has exploded in recent years. It typically involves the insured/policy owner, the insurance agent or broker, the life settlement provider (who assembles and prices the deals) and the funder (such as a hedge fund.)

For a quick description and analysis of the secondary life insurance market, see Jay Vadiveloo (Deloitte Consulting), "[The Life Settlements Market, an Actuarial Perspective on Consumer Economic Value](#)," ACORD LOMA Life Insurance Forum (May 23, 2006).

The market for life settlements targets situations in which there are large policies and elderly insureds with impaired mortality. *Life Settlement NumberCruncher* will help you address the numerical component of the decision to retain or sell the policy. This program also should help you fulfill your professional (and perhaps even fiduciary) responsibilities to give well-reasoned responses if a client consults you regarding an offer to purchase such a policy or asks later why you didn't recommend a life settlement -- or if, after the client's death, the policy beneficiaries question why you recommended a life settlement.

The [New York State Insurance Department -- "Life Settlements -- Top Ten Questions"](#) and "[Life Settlements -- Life Insurance Rescue](#)" from the [Quatloos](#) website help explain the life settlement process. For a description of the life settlement process and a discussion of the pros and cons of life settlements, also see the [PA Elder, Estate and Fiduciary Law Blog](#) (Sept. 21, 2007). And see J. Alan Jensen's and Stephan R. Leimberg's, "Stranger-Owned Life Insurance," *ACTEC Journal*, Fall 2007, at p. 110, and James C. Magner & Stephan R. Leimberg's, "Life Settlement Transactions: Important Tax and Legal Issues to Consider," *Estate Planning* (April 2007).

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No Competitors

I am aware of no software product that is in direct competition with *Life Settlement NumberCruncher*.

There are, however, two very different products in this general area:

The [*Life Settlement Analyzer Life Settlement Analyzer System*](#), furnished by Data Life Associates, Inc. as part of their consulting support, is a program that calculates premium funding requirements and does purchase price analysis, including alternate life expectancies.

A free Excel-based [*Life Settlement Viatical Calculator*](#) is available from [*FreewareBox.com*](#). This Excel-based spreadsheet merely estimates a life settlement value based on the basic policy information.

While these products address the life settlement computations, neither offers the independent level of analysis available from *Life Settlement NumberCruncher*.

What's It All About?

Life Settlement NumberCruncher helps you determine the economic viability of a proposed life insurance policy sale. (Typically, the policy will be in an irrevocable life insurance trust, although it may be individually owned.) The program actually illustrates the financial benefit of retaining the policy, as opposed to selling it.

How Does It Work?

Life Settlement NumberCruncher calls for the insurance agent to obtain a current in-force policy illustration from the insurance carrier for the policy being analyzed. This illustration shows the policy's age, the current policy year, the annual premiums payable, the current cash surrender value and the death benefit (face amount). The program's "Help" file contains comprehensive information about obtaining and evaluating this data, including how to determine the premiums to use for purposes of the illustration.

The program's opening screen allows you to enter your company or firm data. Then, you are presented with two intuitive and easy-to-follow data entry screens.

On the first screen, you enter:

Insured: The insured's name, date of birth, and current policy age.

Policy: The insurance company name, policy number, current policy year, current cash surrender value, current death benefit, life settlement offer (either before or after commissions), and cumulative premiums paid to date.

Assumed marginal tax rates: Estimated federal and state gift, estate, ordinary income and capital gains rates.

Assumed discount rate: The rate upon which the program's net present value

calculations will be made -- typically the assumed average rate on the client's investments.

Life expectancy assumptions: Internal Revenue Service Annuity Table, IRS Table 90CM, the life insurance industry Table 2001 Commissioners Standard Ordinary Mortality Table, and the life expectancy assumptions used by the life settlement provider (if obtainable).

The second data entry screen has columns for entering annual premiums to be paid on the policy; the anticipated annual taxable gift portion of each of these premiums; and the insurance death benefit for each year of the insured's remaining life. The program requires that columns, such as premiums for a number of years, be filled in. There's a helpful autofill feature, which allows you to enter an amount once; the program then automatically fills the column below where the amounts are identical.

The program next presents three screens of calculations:

(1) The first calculation screen reflects computation of the income tax on the proposed life settlement alternatives as "all ordinary income" or "eligible for capital gains treatment," given the uncertain state of the law on this subject. In addition, the program assumes that basis equals the cumulative premiums paid to date, although the user is given the ability to change the policy basis by modifying the entry of the cumulative premiums paid.

(2) The second calculation screen determines the net life settlement value of selling the policy after income and estate taxes (if applicable), again assuming all ordinary income and capital gains alternatives.

(3) The third calculation screen determines the intrinsic economic value of retaining the policy until the insured's death. It is a table that reflects the data input for each year of the insured's remaining life beginning with the current policy year, the total annual outlay on the policy, the net present value of these policy outlays, the insurance death benefit after taxes for each year, and the net present value of the insurance death benefit for each year. All of these factors enter into the calculation of the intrinsic economic value of retaining the policy for each remaining year of the insured's life. This table highlights the years that correspond to the life expectancy assumptions previously entered.

The results screens assume: (a) all ordinary income and (b) capital gains eligibility reflecting the crossover point when the sale of the policy is considered economically viable.

The final screen is a clear, easy-to-follow line graph that charts the economic gain or loss from the life settlement over time (the insured's age, the calendar year and the policy year). It displays the crossover point at which the policy's sale becomes beneficial. It also allows you to toggle among various assumed tax characterizations and discount rates.

For a printed report, you can print out either individual screens or all program screens. The screens are printed exactly as displayed on your computer.

Detailed operational help and background information is available for each screen merely by clicking on the "Help" button on the screen. A useful frequently-asked-

questions (FAQs) page is included, which explains the program's methodology and the concepts it addresses. The FAQs may be copied to the Windows Clipboard and pasted to your word processing program for use in your client report.

Clicking on "Technical Support" brings up an email support request that you may transmit directly to [The Weinberg Group](#).

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Where Do You Get It?

Life Settlement NumberCruncher is described on Leimberg.com at www.leimberg.com/products/software/LSNC.asp. It costs \$299 and is available by either mail delivery or electronic download. Updates are available free of charge.

You may purchase the software by contacting the publisher at:

Leimberg Associates, Inc. and Leimberg & LeClair, Inc.

144 West Eagle Road
Havertown, PA 19083
Phone: (610) 924-0515
Fax: (610) 924-0514

www.leimberg.com/products/software/

Bottom Line

This program is a specialized tool to address potential life settlement situations that may arise. Sometimes, a life settlement is appropriate. Certainly, if the federal estate tax exemption increases, life insurance policies that have outlived their usefulness may become the subjects of life settlements. Once the life settlement issue comes up in your practice, you need to grasp the math and economics involved, if you are to best serve your client. *Life Settlement NumberCruncher* will help you meet this goal.

Trusts & Estates magazine is pleased to present the monthly Technology Review by Donald H. Kelley -- a respected connoisseur of the software and Internet resources wealth management advisors use to further their practices.

Kelley is a lawyer living in Highlands Ranch, Colo. and is of counsel to the law firm of Kelley, Scritsmier & Byrne, P.C. of North Platte, Neb. He is the co-author of the Intuitive Estate Planner Software, (Thomson-West 2004). He has served on the governing boards of the American Bar Association Real Property Probate and Trust Section and the American College of Tax Counsel. He is a past regent and past chair of the Committee on Technology in the Practice of the American College of Trust and Estate Counsel.

Trusts & Estates has asked Kelley to provide his unvarnished opinions on the tech resources available in the practice today. His columns are edited for readability only. Send feedback and suggestions for articles directly to him at dhkelley@qwestoffice.net.

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