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INSURANCE Firm buys out life policies

Berkshire unit lends \$400M to startup

By John Hoogesteger
Staff Reporter

A new Minnetonka firm has secured up to \$400 million in financing from a unit of Berkshire Hathaway Inc., with plans to buy life insurance policies from wealthy seniors.

Paul J. Moe, chairman and CEO of Living Benefits Financial Services, is aiming to buy \$1 billion to \$1.5 billion in policies in two years, which should establish Living Benefits as a market leader in an emerging industry that buys life insurance policies for more than their cash value.

The half-dozen firms in this finance niche are estimated to have a total of about \$1 billion at their disposal to buy policies, Moe said.

Living Benefits will buy \$300 million to \$400 million of the roughly \$2 billion in policies expected to be bought in 2002, he said. The \$400 million facility was arranged by General Re Securities, a subsidiary of Omaha, Neb.-based Berkshire Hathaway. Moe continues to seek additional financing.

The developing Life Settlement business is dwarfed by the life insurance industry, with its \$13 trillion of in-force policies. For example, St. Paul-based Minnesota Life Insurance Co. alone wrote \$2.8 billion in new coverage last year and has \$292 billion in total coverage.

The Life Settlement business is an extension of the Viatical market that became popular about 10 years ago. Then, the focus was on buying policies of terminally ill people who had a life expectancy of less than three years and needed money before their death.

The new model focuses longer term, seeking people with a life expectancy of approximately 13

years or less who have insurance policies they no longer need or who require more liquidity.

Historically, the only option available for people who either didn't want or couldn't afford to pay premiums on a policy was to surrender it for cash value. Life Settlement firms will pay significantly more, Moe said.

Alan Buerger, chair and CEO of Fort Washington, Pa.-based Coventry First and a vice president of Life Settlement Institute, gave an example: A current customer has a \$10 million policy with a \$400,000 cash value. Coventry will pay about \$2.8 million for the policy. The firm will continue to pay the premium on the policy until the customer dies. Then Coventry will receive the policy's face value.

The company has paid about \$125 million total above cash value to about 1,000 clients, Buerger said.

How much a person receives above face value depends on the company's actuarial-based estimate of his or her life expectancy. The risk the companies take is that the client may live longer than expected.

Living Benefits' average client has an eight-year life expectancy. But the company will generate enough revenue to be profitable in the meantime because it also earns fee income from originating and servicing the policies.

Overall, Moe believes the model poses little risk if the business is properly underwritten. "In the history of the United States, there has never been a case where a valid life insurance policy claim has not been paid," he said.

Insurance firms were wary at first, Moe said, but have realized the value of continuing to receive premiums instead of seeing policies cashed out. Insurance firms now are joining the industry as inventors. It opens up a new sales channel where insurance firms can pitch both a death-benefit policy and a Life Settlement policy.

Moe and his co-founders, President Kenneth Klein and Moe's wife, Suzanne Budolfson Moe, created Living Benefits as a logical extension of their nine-year Viatical business, ViatiCare Financial Services.



Paul J. Moe, chairman and CEO of Living Benefits Financial Services.

"In the back of my mind, I always felt there was a market for seniors who have insurance they don't want or can't afford," Moe said. "I kept finding all these reasons they would want to sell their insurance."

The firm secured financing in August and began ramping up service. It has 42 employees. "We benefited from the layoffs at Prudential and American Express. It has helped us build a strong core of employees with a good work ethic," he said.

The company is targeting sophisticated clients who understand their finances, though it will not consider policies with a benefit of less than \$250,000.

"Life Settlements are not for everybody. Not even everybody who qualifies should necessarily do this," Moe said.

It could have business applications, however, said Betsy Buckley, CEO and president of St. Paul-based What Matters for Life, which is the managing general broker for Minnesota, charged with making the connection between Living Benefits and potential clients through professional advisers such as CPAs and Estate Planners.

Likely clients include business people who have key-man insurance for their business that they no longer need or who bought term insurance to cover a transaction, such as a merger or acquisition, she said.

Buerger said financial advisers will have a liability if they let a client cash out a policy and later they find out they could've gotten more by selling the policy.

Growth market

The Life Settlement market is projected to boom.

2001	\$1 billion
2002	\$2 billion
2005	\$10 billion to \$15 billion

Source: Living Benefits Financial Services, LLC

For more information, visit
www.livingbenefitsllc.com or call 877-210-8787.