

# I Did It. I Invested In Death!

It's official: the Grim Reaper and I are now partners. However - let me be clear - we have agreed upon a firewall between our respective functions. The Grim Reaper himself will continue to fulfill his duties in transitioning people from life to death (I'm not into the whole blood and guts scene), and I also stay out of the realm of deciding whether someone's time has expired or not. Additionally, I made him promise that he can't take anyone earlier than they were naturally going to go or I just wouldn't be able to participate in this arrangement with a clear conscience. It's a matter of morals and ethics.

My role in this arrangement is solely financial. I agreed to put up the capital to buy fractional shares of life insurance policies (i.e. life settlements) for those that are likely on their last stretch of life. Now hold on just a second before you jump to any morbid conclusions. In agreeing to this arrangement, I am providing a new source of liquidity for the insured. If you read [my post from a few weeks ago](#) (you may want to go back and read this before reading this post), there are three main reasons why someone may choose to sell their life insurance policy:

1. The policyholder can no longer afford the insurance premiums to keep the policy active.
2. The policyholder no longer needs or wants the life insurance policy.
3. The policyholder may need the money now to pay for medical bills or to maintain their standard of living during the remaining years of their life.

And the reason that investors like **YOU** and me can even get a piece of the action is that the insured can get more money from private investors than what the insurance company will give them in the form of the cash surrender value. In many cases, the insured can get 3-4X more this way than via the cash surrender value offered by the insurance company.

So I look at it as a win/win. The **insured gets a lot more money** while they live out the rest of their life and **the investor gets rewarded for providing that benefit up front** at the end of the insured's life.

Before you decide whether this is for you or not, we should dive a little deeper into the risks associated with this investment product. Then, at the end, I will provide in-

depth detail on my first \$30,000 investment into life settlements.

## Key Risk Considerations

As with any investment, there is always risk lurking on the horizon. Anytime someone tries pitching you a riskless investment, turn around and run the other direction as fast as you can because **no such investment exists**. There are two primary risks when it comes to investing in life settlements:

**(1) Liquidity Risk** - The issue of liquidity is fundamental in deciding how much to commit to any investment. Purchasing a fractional interest in a life settlement policy means that your funds are committed until the policy matures (i.e. the insured passes away). So, you should not invest any funds you can't afford to have locked for multiple years (I would plan for two to seven years depending on the specifics of the insured).

**(2) Life Extension Risk** - The estimated life expectancy of the insured plays a vital role in determining the ultimate returns you will earn. The life expectancy estimates are determined through medical evaluations and actuarial analyses of similar population groups. Because we are dealing with estimates, we are almost guaranteed that any one individual may live longer or shorter than the estimated life expectancy derived from the analysis.

Although most reading this may find the illiquid nature of this investment product as a risk, I have increasingly grown fond of investments that lack liquidity. The reason for this is that it forces my hand to remain disciplined and patient, something that is harder for me (and many others) to do when you can buy and sell with the click of a button. So, I look at illiquidity as a feature, rather than a risk (but not everyone is going to have this same perspective). **We all know that “time in the market” is more important than “timing the market” when it comes to compounding our money.**

For me, that leaves life extension risk as the primary risk to analyze. I realize that we live in a time where advancements in medicine are happening more rapidly than in any other time in history. The question then actually becomes “when will these advancements in science become a real threat to this asset class?” One of the primary reasons I chose Reliant as the company through which I am investing in these vehicles is the filter they use to screen the policies they decide to purchase and then fractionalize to investors.

Reliant's policy acquisition team reviews \$300 million worth of policies each month, with only a small fraction of that making it through their funnel. To give you further context, they have been in business since 2012 and have only made 30 life insurance policies available for investments, out of a selection of hundreds and maybe even thousands.

### **Their sweet spot checks all of the following boxes:**

- Universal life policy with a face value of \$2.5M or higher.
- Age of the insured is 80+ years old.
- Insured also typically has some form of medical impairment and possibly a sub-standard family history.
- Targeted life expectancy of insured is two to five years.

Reliant goes the extra mile by providing multiple life expectancy reports from other licensed third-party underwriters for each policy they market. In addition to these third-party determinations, Reliant also discloses the Social Security Administration life expectancy estimate relevant to the insured.

With these extra reports and the rigorous and disciplined filter process, I feel comfortable with the life extension risk. However, I do plan to diversify this risk over multiple policies, with three now and a plan to acquire ten total over the next six to twelve months.

### **What About Taxes?**

The good news is that there are no taxes due on these investments until the policy pays out. To me this is another great benefit to the "illiquidity feature" I described above. I'm a big proponent of delaying taxes for as long as possible, and this product offers this as a built-in feature (FREE of charge ☐ ).

When the person insured by the life insurance contract dies, this triggers the insurance company to pay the death benefit. Because the investors of life settlement policies have no other relationship with the insured, and would not otherwise see any detriment to their finances upon the insured's death, the normal tax-exempt status of death benefits doesn't apply. The IRS treats gains from life settlements as ordinary income, rather than capital gains. Yes, this is a negative for high-income individuals (like the GYFG household), who will be taxed at rates much higher than capital gains rates.

Our current marginal tax rate is sitting around 40%, so if we do earn say a compounded 12%, our after-tax return is only going to be approximately 7.2%. Based on my income aspirations, one of these days we could be closer to a 50% marginal rate, leaving us with only a 6% after-tax return. Let's hope that tax reform lowers the tax brackets favorably before we realize any gains from these investments.

(An investor could alternatively choose to mitigate this tax consequence by investing in life settlements through a self-directed IRA.)

Just keep in mind that a 6-7% after-tax return is still very respectable. For comparison, if you're in the 40-50% marginal tax bracket and you get 8% from investing in the stock market (the oft-quoted historical average), you are only looking at 4-5% after-tax returns. This gives me further comfort and removes FOMO (fear of missing out) by choosing this investment as a component of my portfolio vs. investing in more stocks.

## Details Behind My \$30,000 Investment

The minimum investment to get started in this asset class was \$30,000 with a minimum of \$10,000 per policy. So, I started off my position with the minimum spread across the following three policies:

### LIFE SETTLEMENT INVESTMENTS

Estimated

#	Investment	Insured Age	Purchase Date	Maturity Date	Duration	Fixed Return %	Annual Return %	CAGR %	Fixed Return \$	Monthly	Annually
1	\$ 10,000	83	10/27/2017	2/4/2020	2.31	45%	19.5%	17.5%	\$ 4,500	\$ 163	\$ 1,952
2	\$ 10,000	80	10/27/2017	1/30/2021	3.31	64%	19.3%	16.1%	\$ 6,400	\$ 161	\$ 1,935
3	\$ 10,000	83	10/27/2017	8/4/2022	4.84	75%	15.5%	12.3%	\$ 7,500	\$ 129	\$ 1,550
<b>TOTAL</b>	<b>\$ 30,000</b>		<b>N/A</b>	<b>N/A</b>	<b>3.48</b>	<b>61.3%</b>	<b>17.6%</b>	<b>14.7%</b>	<b>\$ 18,400</b>	<b>\$ 453</b>	<b>\$ 5,436</b>

Originally I had planned to share the specific details of each policy but found out after receiving all of the documentation that it's confidential and prohibited under California Law (except for dissemination of which is necessary to effect the sale of the policy). So instead, I thought I would give you an idea of the medical condition of the people that fit Reliant's criteria listed above.

**Here is a rundown of the medical wrap sheet that will be common (or worse):**

- 83-year-old male
- Former smoker
- 5' 9" weighing 230 lbs with a medical history of obesity
- Adhesive capsulitis of the shoulder
- Osteoarthritis of left leg
- Rotator cuff tear of right shoulder
- Dislocation of right shoulder due to fall
- Mumps and measles as a child
- Suffers borderline hypothyroidism
- Umbilical hernia
- Dermatophytosis
- Osteoarthritis of lower legs
- Varicose veins
- Possible signs of neurological problems
- Sleep apnea.
- History of falls
- Medical records indicate insured is non-compliant and uncooperative with doctors [you go, old guy]

The overall goal is to build a \$100,000 position over ten policies to achieve diversification of the life expectancy risk. As policies mature and pay out I will have to decide whether to reinvest for another cycle or take the money and redeploy elsewhere. Let's cross that bridge when we get there!

*If you would like to receive more information about this investment class and support this site at the same time, please send me a note about your interest in the contact form below. I have worked out a special deal with Reliant that will allow me to give you a \$25 Amazon gift card if you decide to invest. You don't have to go through me, but I do appreciate your support if you choose to. Once Reliant confirms your investment I will send you a gift card electronically through email.*

**Error:** Contact form not found.

- Gen Y Finance Guy

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## Gen Y Finance Guy

**Hey, I'm Dom** - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)