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Five Reasons Institutions are Investing in Longevity-Oriented Investments

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The longevity-oriented asset class has evolved considerably since its inception decades ago. Initially, it emerged as a niche financial market called viatical settlements, where terminally ill individuals sold their life insurance policies for a lump-sum cash payment with little oversight. Now, the life settlement industry, which is not focused on terminally ill individuals and is regulated by state insurance departments in the vast majority of states, offers sophisticated product structures, standardized procedures, and growing investor interest.

One significant development was the acceptance by institutional investors of longevity-oriented assets as a valid asset class within the larger financial market. Institutional investors have become more engaged in the market in pursuit of attractive returns, portfolio diversification, and non-correlated assets.

Moreover, education of policyowners, financial intermediaries and investors, advancements in technology, and data analytics have facilitated more efficient transactions, making it easier for life insurance sellers to access the market and for institutional investors to assess the risks and potential returns associated with longevity-oriented investments.

Read on to see five reasons institutions are investing in longevity-oriented assets:

Reason #1 – Potential for Attractive Returns

Several factors contribute to their potentially attractive returns.

Discounted Purchase Prices: To construct their portfolios, institutional investors buy life insurance policies at a discount to the policy's death benefit. This discount considers the insured's life expectancy, the premiums needed to keep the policy in force, and ongoing maintenance expenses.

Projected Ongoing Cash Flows: Once a life insurance policy is acquired, investors pay the premiums until the insured passes away. Upon the insured's death, the investor receives the death benefit. Since life expectancy estimates are based on actuarial tables and medical assessments, investors can forecast cash flows with a reasonable degree of predictability.

Possibility of Outperformance: Regular evaluations of the assets and the underlying insureds will identify situations where policy performance will differ from projections. When this occurs, opportunistic selling can enhance projected performance. Astute investors working with the right partners may identify policies where it is more likely for these positive changes to occur.

Reason #2 – Non-Correlated Asset

For years, alternative assets have claimed non-correlation, only to realize later that many actually correlate with broader financial markets. Longevity-oriented investments are largely not correlated to traditional markets because the primary performance driver (insured mortality) is not correlated to traditional markets. Therefore, properly structured investments are less susceptible to market volatility and economic cycles.

Ability to Tailor Time Horizons: It is possible to design longevity-oriented structures that cater to both mid- and long-term investment time horizons.

Reason #3 – Established and Stable Regulatory Framework

The Life Settlements Model Act was adopted by the National Council of Insurance Legislators (NCOIL) in 2000. NCOIL readopted the act in 2014 and 2019. The National Association of Insurance Commissioners (NAIC) first adopted its Viatical Settlements Model Act in 2001. Both model acts have been amended several times to add provisions to increase safeguards for policy sellers and standardize life settlement market activities.

Life settlements are regulated by state insurance departments with states using one of the model acts as the basis for their regulatory framework. Currently, 45 states regulate life settlements, accounting for more than 90% of the U.S. population. Additionally, Congress improved the tax consequences for policyowners who sell their policy. Thanks to the 2017 Tax Cuts and Jobs Act, the methodology a policyowner uses for calculating his or her tax basis is more favorable, which can lower potential taxes a policyowner needs to pay when they sell a policy.

Reason #4 – Expanded Portfolio Options

Portfolios can be built over time to meet the specific investment objectives of an investor. One key factor that investors can customize is expected duration by building a portfolio with life expectancy estimates that meet the investor's desired duration. The investor's views on portfolio demographics, such as policy size, insurance carriers, insured age, and medical impairments, can be incorporated into a purchasing program to create a customized portfolio of policies that fit the specific needs of the investor.

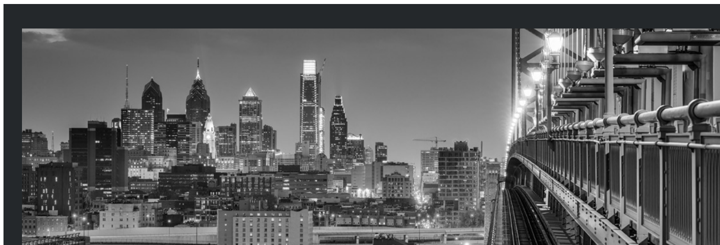
Some managers use an open-end structure, which is usually actively managed, while others opt for a closed-end structure, which typically employs a buy-and-hold strategy that may be enhanced with some opportunistic selling. Portfolio structures can be made to target portfolios with a total return focus or ones that are more income oriented.

Reason #5 – Enormous Supply Potential

According to the ACLI, there are currently about 137 million individually owned life insurance policies with a total face amount of about $14 trillion. In recent years, between 7 million and 9 million policies were lapsed or surrendered. Conning Research estimates that more than $230 billion of life insurance meets investor criteria for a life settlement. The life settlement market is growing, but still, only a few billion of face amount is sold by individuals each year, so there is a significant opportunity to materially increase the supply of policies. This supply is further supported by an active tertiary market where institutional investors are trading policies that have already been sold into the life settlement market.

Factors Increasing Supply: One factor is favorable demographic trends from an aging population whose situation has changed, so their financial plan needs to change. Another factor is additional education from industry participants as most people are still unaware that their policy is an asset that can be sold.

The current amount of institutional capital available in the life settlement market is not sufficient to meet the currently available supply of policies. Investors should be able to deploy a sizable amount of capital into the asset class, building a diversified portfolio of high-quality assets over a reasonable amount of time.



The LifeCap Advantage

LifeCap specializes in providing institutional investors and family offices unparalleled access to longevity-oriented investments through our strategic relationships with leading companies in the secondary market for life insurance.

The LifeCap team has spent more than 20 years working alongside institutions, advisors, and individual investors alike to educate investors about alternative assets, with a focus on longevity-oriented investments.

To learn more about life settlements and how LifeCap can enable you to leverage the potential of the longevity-oriented asset class, schedule a call with us at lifecap.com.

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