

# LIFE SETTLEMENTS OFFER LAPSE ALTERNATIVE

**SOMETIMES SELLING A DUSTY OLD INSURANCE CONTRACT IS THE RIGHT STRATEGY FOR SENIOR CLIENTS**

SEVERAL YEARS AGO, YOU HELPED MIDDLE-AGED CLIENTS CHOOSE AN ESTATE PLAN AND LIFE INSURANCE POLICY THAT WOULD BEST FIT THEIR NEEDS. THEY LOVED THE PLAN, IT GOT THEM THROUGH THE REST OF THEIR WORKING YEARS AND YOU'VE BECOME A TRUSTED SOURCE OF FINANCIAL INFORMATION. NOW THOSE CLIENTS HAVE REACHED RETIREMENT AGE. **BY LARRY SIMON**



People's lives and needs change drastically between ages 65 and 85, and previously made financial plans no longer apply. Take a 77-year-old man, for example, who no longer has close relatives or friends and chooses to live in a senior retirement center. The money he used to pay his life insurance premium now goes toward his retirement center fees, so his policy will lapse.

For a variety of reasons, this lapse occurs with more than 90 percent of policyholders.

Life settlements, also known as senior settlements, enable seniors to sell unneeded life insurance policies for greater cash value than surrendering them, giving you a reason to get in touch with long-term clients.

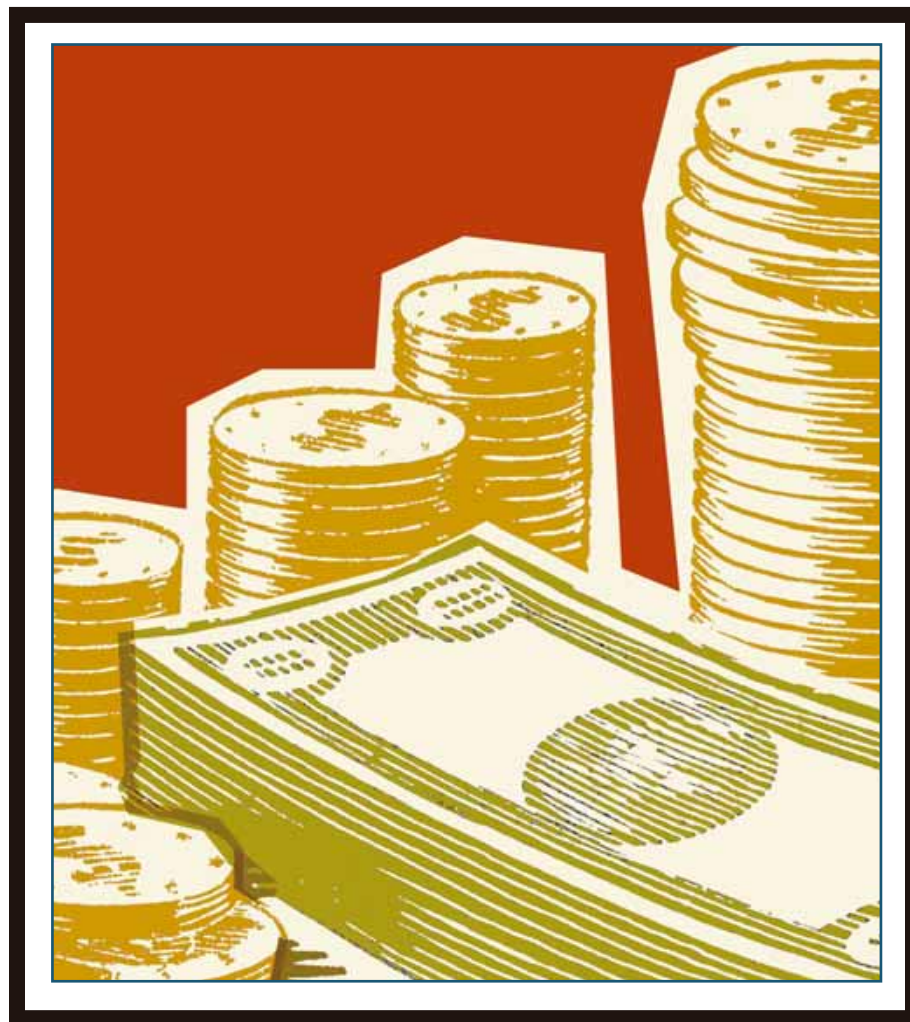
#### **PLANNING TOOL**

The reasons a life settlement solution might work for clients are varied. Perhaps the policy owner has accumulated enough wealth that he is essentially self-insured. In other cases, the policy premiums may have become too expensive and unaffordable, and the client would like to seek other coverage. Other scenarios might include a policy owner choosing to remove a policy from a taxable estate or replacing a single-life policy with a joint and survivor policy.

Several benefits await policy owners who liquidate a life insurance policy for an amount higher than the cash-surrender value:

- Receipt of cash proceeds prior to policy maturity
- Higher cash payout than the cash-surrender value
- Generating profit from an underperforming asset
- Relief from premium expenses

As a result, life settlements are increasingly popular with seniors. They often use the cash proceeds to fund



annuities or other investments, for supplemental retirement income, or to create new estate planning or planned giving options, which may better suit their financial goals.

#### **HOW THEY WORK**

In a nutshell, the life settlement process works like this: A life insurance policyholder sells the benefits of the policy to an investor. Most investors do not directly negotiate with policyholders; rather, they provide financing for life settlement companies that facilitate the purchase of the policies.

A good candidate typically has \$500,000 or more in universal life coverage, though virtually any type of life insurance policy, as well as those held in irrevocable life insurance trusts, may qualify. The policy must have been issued two or more years prior to settle-

ment, generally by an A-rated U.S. insurance company. In addition, policies considered for purchase by life settlement companies must meet certain eligibility requirements:

- The policy must be beyond any carrier or statutory contestability period, fully renewable and subject only to the payment of premiums.
- The insured's life expectancy must be between 25 months and 144 months based on one or more medical evaluations from an approved evaluator.
- Term policies must have a minimum term life insurance coverage equal to the greater of two times the life expectancy or 10 years.
- The face value of such a policy cannot exceed \$20 million.

Once a life settlement company locates an eligible life insurance policy and confirms initial eligibility requirements are met, the insured's medical

records are sent to one or more medical evaluators for a life expectancy rating.

If an offer to purchase the policy is to be extended to the owner, the results of these evaluations, along with the information derived from a policy illustration generated by the insurance company that issued the policy, serve as the basis for determining the bid price that will meet investment criteria as established by capital funding sources.

If the company accepts the life settlement company's offer, it relinquishes ownership and beneficial interest in the policy in exchange for a cash payment. As the new policyholder, the investor must maintain all premium payments to keep the policy in force. The concept is much like the buying and selling of mortgage contracts. In this instance, an insurance contract is bought and sold with the investor acquiring both the beneficial interest in the contract and the obligation to provide for servicing and administration of the contract.

The market opportunity exists primarily as an alternative to surrender values payable by life insurance companies when a policy owner decides to redeem or cash-in the policy. These surrender values often are so low that a qualified life settlement provider company can pay a higher value.

#### **FIND THE RIGHT COMPANY**

Agents and brokers should perform due diligence. Gather information from several competitive companies and target those whose senior management has the most life settlement experience. German company Scope Group rates and ranks life settlement companies, so far the only company to do so. Scope offers information on its Web site at [www.scope-group.com](http://www.scope-group.com). Agents and brokers should seek companies with an A-rating or higher.

In addition, these guidelines can

help you make the right choice for your clients:

- Solicit bids from providers that are both experienced and ethical (regulation of life settlements is not the same in all states, and some states do not regulate the industry at all).
- Select a life settlement company that is licensed or otherwise qualified to do business in the state in which the policy holder resides.
- Look for proven industry experience, preferably at least \$500 million in purchased aggregate face value to date.
- Confirm that the company is institutionally funded and will not resell the contract to an individual investor.
- Check with the state attorney general's office or state insurance department for any complaints or legal action against the settlement provider.
- Insist on a settlement provider that uses reputable, independent financial institutions to hold the money in escrow until the change of ownership closes.
- Determine and disclose all tax implications to your client.

Statistics released by the Life Settlement Institute in April 2005 indicate life settlements have paid life insurance policy owners an aggregate of more than \$1 billion above cash surrender for their policies. The future looks good for the life settlement industry, which has grown significantly in recent years. 📈

LARRY SIMON IS DIRECTOR, CEO AND PRESIDENT OF LIFE SETTLEMENT SOLUTIONS INC., BASED IN SAN DIEGO. THE COMPANY HAS PURCHASED LIFE INSURANCE POLICIES IN EXCESS OF \$1 BILLION AGGREGATE FACE VALUE. FOR FURTHER INFORMATION REGARDING LIFE SETTLEMENT SOLUTIONS, VISIT [WWW.LSS-CORP.COM](http://WWW.LSS-CORP.COM).

*Comments? Please send them to us at [feedback@seniormarketadvisor.com](mailto:feedback@seniormarketadvisor.com)*

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