

Robin & Peter on LIFE SETTLEMENTS



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Creating Awareness for the 100th Time!

This is a very special issue of our monthly newsletter – *it's the 100th edition!* We started writing these about 10 years ago as there were so many questions and concerns about the relatively new life settlement business. We thought that if we addressed the issues, state regulations, taxation, highlighted sample cases, etc., that producers would gain a comfort level about the business and would learn to recognize settlement opportunities for clients and prospects.

It doesn't seem possible that it is still necessary to write so frequently about life settlements because, by now, they should be a mainstream transaction used routinely as an alternative to lapsing or surrendering a policy. Unfortunately, this is not yet the case and, therefore, policyowners may be losing out on cash at a time when they most likely need it.

Here are several topics foremost on our minds that we thought now would be a good time to share with you again:

- It continues to astound us how many consumers still don't know about life settlements, even though they have been around for over 20 years and, even more surprising, is how many producers still lack the knowledge to recognize and to handle settlements. In both scenarios, it is policyholders who suffer the consequences. This situation is due, at least in part, to the insurance companies that still prohibit their producers from engaging in life settlement transactions on behalf of their clients. There is a light at the end of the tunnel, however, as there is some form of consumer disclosure requirement in 9 states and so

perhaps insurance companies won't be getting away with this anti-consumer behavior for much longer.

- Too often we still hear, I'll sell my policy if I get a good enough offer for it, otherwise I'll keep it. Life settlement investors typically price their offers using discount rates exceeding 15%. Mathematically, a "good enough" offer is only possible if the seller is able to get better than a 15% compounded tax-free return on the settlement proceeds. Since that kind of return is unrealistic, a "good enough" offer is not really possible. Life insurance can be a uniquely valuable asset. A life settlement should not be considered as a speculative financial transaction, but rather should only be considered when a policy is about to be terminated. Remember, a life settlement is an alternative to surrendering a policy – not to keeping it.
- There are still far too many missed term insurance life settlement opportunities. Term insurance policies that are convertible to universal life make great life settlement prospects. Sellers are often in a situation where they cannot afford to convert or continue a term policy after the initial rate guarantee period. A partial conversion combined with a life settlement can be a great solution. Even if retaining some insurance is not desired, a life settlement is a great way to salvage some money from a term insurance policy that would otherwise lapse without value.
- While many life settlement transactions are just financial transactions aimed to maximize value from a policy that would otherwise be lapsed or surrendered, some of these transactions are much more meaningful and have truly made a difference in people's lives. Among our most memorable cases were those that provided money to make homes wheelchair accessible for ALS patients, for experimental cancer treatments, for home health care and to keep other insurance in force. Delivering a life settlement check can be like presenting a death claim check to a widow or a disability income check to someone who is disabled.

Life settlements are one more opportunity to do something good, and sometimes life changing, for your clients and prospects. We look forward to continuing to share out insights and expertise on life settlements with you each month. If you haven't taken notice of someone who has a policy that is about to be lapsed or surrendered and then tried to see if it could have value in the secondary market, then perhaps you are not offering your clients the best available alternative.

As we have said in the past and will continue to say in the future, “it can’t hurt to try – it can only hurt not to.” As situations come up, please be sure to give us a call.

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