Robin & Peter on LIFE SETTLEMENTS

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Protecting a Retirement Nest Egg with a Life Settlement

Many retirement planners routinely suggest that retirees keep an amount equal to 6 to 12 months of living expenses in cash equivalents, like money market accounts, as an emergency fund. One reason for this recommendation is to mitigate the risk that assets will have to be liquidated at unfavorable prices in a down market, should an unexpected financial need arise.

For retirees, financial setbacks, especially those due to health related problems, are always a real and present danger. The combination of a critical financial need and a down market is a real possibility, especially in today's economic environment. Recently, for example, the stock market has fluctuated wildly, and looking out into the not too distant future, many prognosticators are predicting a recession. Similarly, other investment markets like bonds and real estate can also be depressed at any moment in time.

A down market and a critical cash need could require liquidating part of a retirement nest egg at a most inopportune time. Effectively, this would lock in down market losses and can cause permanent harm to a retiree's financial security.

Perhaps, creatively, you can help your clients unlock hidden value within their life insurance, which may no longer be needed, wanted or affordable. A life settlement, the sale of a policy to investors for an amount greater than the cash surrender value, can be an alternative to irreparable damage to a client's retirement portfolio.

Life settlement values are, for the most part, uncorrelated to stock, bond and real estate markets. So, when other assets may have to be sold at a depressed value, a life settlement could present a timely, viable substitute. Additionally, selling the policy in a life settlement ends the future premium burden, further alleviating cash flow problems.

This is a good time to point out that it's usually a good idea for your clients to have more than one life insurance policy. For example, if you only have one universal life policy with a $2 million face amount, your only choice is to keep it all or sell it all. (Insurer's generally will not allow a universal life policy to be split up.) If, instead, there are two universal life policies, each for $1 million, you then have the option to keep some coverage and sell some coverage. This added flexibility is potentially a big win for your clients.

So, if your senior client is faced with an unexpected cash shortfall and they are contemplating liquidating an asset to meet that need, a life settlement just might be a creative way to help them out.

As you become aware of your senior clients need for cash, and the sale of a life insurance policy could be the solution, be sure to give us a call. As we always say, it can't hurt to try – it can only hurt not to.

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