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Solving the Mystery of Term Life Settlements

We are still baffled by how many term life settlement opportunities are missed. In many instances, we are called by an agent after the expiration of the conversion privilege because they didn't pay attention to when it expired. Others simply still don't know that term policies can be sold in a life settlement. Here's a brief Q & A that should help:

Can a term policy be sold in a life settlement?
Yes! Yes! Yes! Like a life settlement on a universal life policy, the insured should generally be age 65 or older and have had some decline in health since the policy was issued. Term policies make great life settlement candidates because of their very nature. They are typically bought for an insurance need that is temporary. This is unlike permanent policies where the policy owner typically has a long duration or life time insurance need. In addition, because there is no cash value when a term policy lapses, any offer that you get will certainly be appreciated.

Are there special requirements for selling a term insurance policy?
Most life settlement buyers will only consider term policies that are convertible to some form of universal life. Usually, once a term policy goes beyond its initial premium guarantee period, the premiums skyrocket making the policy unattractive to life settlement investors. So, being able to rein in the future premium obligations through a conversion is usually essential.

Is it possible to sell a non-convertible term policy in a life settlement?

Yes, but it is quite rare. It requires an insured that has a serious terminal illness, such as a metastasized cancer or ALS, with a short, highly predictable, life expectancy. In such an instance, a life settlement investor may consider buying the policy, even facing extraordinarily high premiums as they would likely be paid for only a very limited number of years. However, there are additional considerations with such an insured. Since a death claim is probably imminent, selling the policy to an investor is likely to be a poor financial decision unless the insured has an immediate need for cash, such as for medical or long term care expenses, and has no other source of liquidity. Finally, before contemplating a life settlement on a terminally ill insured, it's imperative to determine if the policy has an accelerated death benefit rider and whether or not that would be a better alternative.

When does the conversion privilege on a term policy expire?

Unfortunately, the answer varies from company to company and even within different policies issued by the same company. Some limit the conversion period to a number of years; other companies may also impose a maximum age. For example, a 20 year term policy issued at age 50 might only be convertible to age 65 by the terms of the policy. The variability of conversion periods is a significant factor in missed term life settlements. You need to maintain records on your term clients that not only show when the level premium paying period is over but, separately and perhaps more importantly, when the conversion privilege will end.

How long before the conversion privilege ends should a life settlement be investigated?

A life settlement transaction requires getting medical records, in-force ledgers, life expectancy analyses, investor pricing and the closing. In addition, a term settlement usually includes issuance of the conversion policy. Because the entire process usually takes 3 to 4 months, you should get it started at least 4 to 6 months prior to the expiration of the conversion privilege. If, however, you learn of a policy that will lose its conversion privilege before the life settlement process can be completed, it is generally inadvisable to recommend to the client that they convert the policy speculating that a life settlement offer will be out there. Many policies do not attract life settlement offers.

Can my client sell part of a term policy and keep part?

Insurance companies typically do not permit a permanent policy to be split for a life settlement, however, they do allow partial conversions of a term policy. So yes, it is possible to sell only a portion of a term policy by doing a partial conversion as part of a life settlement transaction. The remaining policy can be kept by your client as term insurance or be converted separately. This can be a huge opportunity with a term life settlement.

As you can see, doing a life settlement on a term policy is not all that mysterious. The real mystery is how many term policies lapse or expire without even investigating the possibility of a life settlement. If you systematically monitor the dates that the conversion periods expire on your clients' term policies, you might just solve that mystery!

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