

Robin & Peter on LIFE SETTLEMENTS



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Top Situations for a Life Settlement

"**What are the best scenarios for a life settlement?**" is a question that we are frequently asked. With 2009 now history, we went back and reviewed the cases that closed and came up with the most common fact patterns for a successful life settlement. This will help you to recognize when a client might be a candidate.

Before getting into the specifics, however, keep in mind that the first and foremost criteria for any life settlement is that the situation must be one where the policy is going to be lapsed or surrendered. That is, a life settlement is not an alternative to keeping a policy. Anytime a client says, "I'll sell the policy if I get a good enough offer, otherwise I'll keep it," you can be sure that the client will never get a good enough offer! That's because life settlement buyers are looking for rates of return well into the double digits and they buy a policy only because they think it is a great investment. When you factor in the transaction costs and the tax advantages of keeping it, a great investment for an investor is an even better one for the current policy owner's heirs. So if the client is thinking of selling only if they get a great offer, rather than as an alternative to lapse or surrender, they are not a prospect.

On the other hand, if a client is going to terminate their policy, **a life settlement can provide a very significant gain over the surrender value.** The key is to recognize situations that indicate a policy is about to be lapsed or surrendered:

- **A decline in estate value and/or a decrease in estate tax liability.** While keeping the policy might still be a good deal (for their heirs), people are typically reluctant to keep more life insurance than they absolutely need.
- **The sale of a business or other illiquid asset.** A policy bought for estate liquidity may have become unnecessary.
- **Insured is retiring or exiting from business.** Business owners frequently acquire a number of life insurance policies in the course of operating their company that are no longer wanted upon retirement or termination. These include buy-sell, key person, fringe benefit, creditor protection and even pension policies.
- **Term policies or riders that are about to expire, lose their conversion privilege or become unaffordable when they get out of the guarantee**

period. These situations can result in both a conversion sale and a settlement.

- **The policy is no longer affordable due to a change in the client's financial picture and no alternative exists like a policy loan or premium loan from a beneficiary or other third party.**
- **The policy is no longer affordable due to policy performance.** As interest rates have declined, many policy owners are being blindsided by premium requirements that dramatically exceed what they expected to pay. This premium surprise can not only exceed their pocketbook, but it may also disturb their estate planing by exceeding their annual gift tax exclusion.

In these financially troubling times, clients are reassessing the amount of insurance that they want, need or can afford. When all else fails and the conclusion is that it is time to lapse or surrender a policy, a life settlement can offer considerably greater "salvage value." **Keeping an eye out for these situations is one more way for you to do good for your clients and for your clients to avoid missing the opportunity a life settlement may provide.**

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