

Robin & Peter on LIFE SETTLEMENTS



May 12, 2009

New Opportunities to Settle Term Policies

Because of the popularity of term life insurance, there is a great deal of interest in settling these policies. Term insurance is typically bought to cover a temporary need and, at some point in time, the insurance is no longer necessary or becomes unaffordable. When either occurs, a life settlement may be a way to recover some "salvage value" for your client. We now have several programs that have expanded the opportunity to settle term policies.

The Traditional Method

The traditional method of settling a term policy is much like that of a typical life settlement, but with a few wrinkles. **A key requirement is that the policy be convertible to universal life.** A conversion ledger is obtained showing the minimum level premium at the current rate to keep the policy in force through age 100. Generally, current assumption policies are favored over secondary guarantee products on the life settlement market.

As part of the life settlement closing process, with you acting as agent, the policy will be converted just prior to closing. Typically, the client will be asked to put the policy in force with a minimum quarterly premium. That premium is usually reimbursed separately from the life settlement proceeds, but, occasionally, it is included. **With a term life settlement, it is possible to keep part of the policy while converting and selling only that portion which is not wanted.**

Unfortunately, some term policies have no value under the traditional method. For these policies there are new special programs that may unearth some cash for your clients. The availability of these programs varies by state.

Special Programs for Convertible Policies

Generally, in addition to the requirement that the term be convertible to U.L., these programs are frequently limited to certain criteria. Typically, a standard or preferred policy of \$500,000 or more, on a male over age 65 that has had a decline in health, is required. Depending on the

program, there may be simplified underwriting.

A key feature of these programs is that the client must get the entire offer, which typically ranges from 2 to 6% of face. There is no compensation to the producer (or us) from the settlement. Everyone gets paid (including the provider) by sharing in the conversion commission. Although programs vary, the give up is usually about 50% of the total commission.

Special Program for Non-Convertible Policies

This program considers level term policies that have at least 5 years of the level premium period remaining. Most importantly, **the policy need not be convertible**, but it must be renewable to at least age 90 and issued standard or preferred. Male insureds aged 65 to 80 will be considered under a simplified underwriting procedure. Offers to the client may range between 4 and 7% of face. In addition, the producer's compensation will usually range between 1 and 1.5% of the face, depending on the offer to the client. Policies with face amounts of \$500,000 to \$5 million will be considered.

If you have a client with an unwanted or unneeded term insurance policy, don't let them miss out on the opportunity that a life settlement can provide. **Especially be on the lookout for:**

- **policies with conversion privileges that are about to expire,**
- **policies approaching the end of the level premium guarantee period that are still convertible, and**
- **key person and buy-sell policies on employees or owners who are retiring.**

The opportunity to settle a term policy has never been better. We can help you uncover hidden value for your clients in what otherwise might be a worthless term policy.

Contact us:

Robin S. Weinberger, CLU, ChFC, CLTC

(617) 451-3343

rsw220@aol.com

Peter N. Katz, JD, CLU, ChFC

(860) 673-3642

pkatzlife@yahoo.com