

Robin & Peter on LIFE SETTLEMENTS



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Take a Close Look at Term Before It Lapses

It seems that many producers, as well as accountants, attorneys and trust officers, are unaware that convertible term policies on seniors age 65 and above can be sold on the secondary market. In fact, these policies represent some of the best prospects for life settlements. Failing to take a look at these term policies, before they are allowed to lapse, could be a significant missed opportunity for clients.

Term insurance is often bought for only a temporary need, and when that need passes, the policy may no longer be wanted or necessary. Also because term insurance premiums ultimately increase with age, most policies become unaffordable over time and eventually lapse. A life settlement can benefit consumers by bringing unexpected cash for policies that would otherwise terminate without value.

Here are a couple of examples of how we were able to help clients with term insurance. In one recent situation, a client had a \$2.5 million term policy but could only afford to convert \$1.25 million. Just before the end of the conversion period, we settled the other \$1.25 million, which gave the client enough money to pay for the first few years of premiums on the coverage that he kept.

Another example was that of an insured who was in poor health and lost most of his wealth in the real estate market, but he desperately wanted to keep as much of his insurance coverage as possible to take care of his family. Upon a review of all of his policies, we found a term contract that was nearing the end of the conversion period that he could not afford to convert. The life settlement proceeds from that policy gave him enough cash to keep his other policies going for several more years, most likely until his death.

A life settlement generally takes several months to complete. So, to avoid missing a settlement opportunity, the process must begin months in advance of the final conversion or lapse dates. Periodically, you should review your book of term business to uncover those policies that are reaching critical decision points like the end of the guaranteed premium period or the end of the conversion period. Who knows what could happen? You might even find clients who want to convert and keep their policy or, perhaps, buy new coverage.

We all want to do right for our clients. So if the decision has been made by one of your senior clients to lapse a term policy, or for that matter, any policy, you owe it to them to take a second look. You never know what you will find.

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

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