

Robin & Peter on LIFE SETTLEMENTS



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Is Whole Life Too Good for a Life Settlement?

"Why won't they give me an offer on my client's whole life policy?" is a question we often hear. Only on rare occasions are we able to get a life settlement offer on a traditional whole life policy. When we tell this to producers who advocate traditional whole life insurance, they sometimes take this defensively as some sort of attack on the merits of whole life insurance. Yet nothing could be further from the truth. Whole life insurance isn't attractive as a life settlement because of its strength, not its weakness.

Unlike universal life, traditional whole life insurance endows. This means that cash values build up over the life of the policy so that, at some age, the cash value equals the death benefit. As a result, there is always a positive correlation between the cash surrender value and the death benefit. In a sense there is always a built in "life settlement value." Additionally, since life settlements involve older insureds, the cash value is often quite substantial, leaving little net amount at risk.

Two of the strengths of universal life are premium flexibility and lower premiums (at least initially). These attributes mean, from a pure death benefit standpoint, universal life can be an attractive choice.

But for universal life there is no relationship between the cash value and the death benefit. The cash value of a universal life insurance policy is solely related to the premium level the policy owner had chosen pay. It is this lack of a relationship that creates the life settlement opportunity. Among other things, the life settlement value is, of course, related to the policy's death benefit.

Term insurance suffers the same weakness as universal life, but with the additional problems that the policy may expire or the premiums drastically increase after the initial guarantee period. Term life that is convertible to universal life solves those problems and can make a fine prospect for a life settlement. Unfortunately, the potential to settle term policies is often overlooked.

While, generally, only whole life insureds with very short life expectancies have any shot at getting a life settlement offer, there is one opportunity that may go unnoticed. Whole life

insurance policies are sometimes sold in combination with a term rider. With some companies, these riders may be convertible to universal life and, like convertible term insurance, can be a life settlement prospect.

When people want to settle a life insurance policy, it is because they want or need cash for that policy. Whole life cash values provide that cash, but universal life and term policies frequently do not, and that is where life settlements can uncover hidden value.

Contact us:

Robin S. Weinberger, CLU, ChFC, CLTC

(617) 451-3343

Peter N. Katz, JD, CLU, ChFC

(860) 673-3642

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