

# Robin & Peter on LIFE SETTLEMENTS



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## The Sky Is Falling ... Or Is It?

On September 6, 2009, *The New York Times* published a front page article on life settlements. Since then we have been repeatedly asked to comment and so we thought we'd share our views with you here. The article compared investing in life settlements to "exotic" instruments like subprime mortgages, credit-default swaps, collateralized debt obligations, etc. This makes for a great headline, but what is the reality of the life settlement marketplace and how do such comparisons affect you and your clients?

While in the post subprime world it is quite appropriate to be diligently scrutinizing any new investment vehicle, the article incorrectly exaggerates the magnitude of the life settlement market relative to that of the mortgage-backed securities market. Citing only unnamed industry sources, the article gives an unattributed estimate of the potential size of the life settlement market as \$500 billion. More realistically, in 2006, the highly regarded Bernstein Research estimated that the life settlement market was only \$9 to \$11 billion and could reach \$160 billion by the year 2030. Based on the Dealogic chart presented in the article, in 2006 alone, the mortgage-backed securities market exceeded \$1 trillion! This comparison is absurd. *The NYT* article wants readers to conclude that life settlement securitizations could cause a financial crisis in the order of magnitude of the mortgage crisis. This is a gross distortion.

*The New York Times* article also mentions Stranger Originated Life Insurance (STOLI); however, it does not put this unfortunate misuse of insurance and life settlements in the proper context. **STOLI has become the bane of the legitimate life settlement industry.** Over the years there have been all sorts of schemes by unscrupulous producers to sell life insurance. And just like other life insurance sales abuses, which have been remedied by regulatory actions, Stranger Originated Life Insurance is being similarly dealt with. Yet, **the value of life insurance itself is beyond question.** Similarly, while life settlements have also been abused to sell insurance, this cannot be allowed to overshadow their fundamental value to policy owners.

**From a producer's standpoint, our primary concern should be to do the best thing for our clients, the policy owners. If a client has a policy that is no longer needed, wanted or affordable, a life settlement offers an alternative to surrendering it for its cash surrender value. If the settlement value is greater than the cash surrender**

**value, shouldn't clients have the right to get the most value out of their life insurance policy? What would you want for your mother, father, or grandparent? Our job is to maximize our clients' financial well-being, and if a life settlement can do that, then it is our responsibility to give our clients that opportunity.**

***Would you expect someone who is selling their home to refuse an offer because the purchaser's financing could possibly be placed in a mortgage-backed security?***

Sadly, *The New York Times* overzealously produces headlines and articles to sell newspapers, and in doing so here, has understated the fundamental benefit that life settlements provide to policy owners. Simply put, getting a senior citizen significantly more money than the cash surrender value for their policy, that is about to be surrendered, doesn't make an exciting enough headline. Too bad -- it should.

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