Robin & Peter on LIFE SETTLEMENTS

May 27, 2015

Lack of Knowledge Results in Lack of Policy Flow and Shortchanged Consumers

At the recent 21st Annual Spring Life Insurance Settlement Association (LISA) Conference held in Boston, there was one recurring theme - no matter what the topic, or who the speaker, the subject of the lack of policy flow into the marketplace cropped up again and again. All of a sudden, there is more cash to purchase policies than there are policies to buy. What happened?

From the investment standpoint, there is now more confidence in the life expectancies used to price policies. In addition, there are still few places to invest that can yield anywhere close to the double digit returns that investors project for life settlements. Life settlements, as a mortality-based investment, are largely uncorrelated with the stock and bond markets. And finally, the regulatory framework is in place to protect the integrity of the business. Therefore, investor demand for policies has grown, which has increased the price that investors are willing to offer for them.

Life settlements should be viewed as an alternative to lapse or surrender, not as an alternative to keeping coverage. With that in mind, here are some interesting statistics regarding lapses:

- At the LISA Conference, Bryan Freeman, President of Habersham Funding, reported that 93% of all policies lapse without a cash benefit and 99% of all term policies pay no benefit at all.
- A 2010 study of seniors over 65, reported by the Insurance Studies Institute, revealed that 90% of seniors who lapsed a policy would have considered a life settlement if they had been aware of the possibility.
- Based on a 2012 LIMRA/SOA Persistency Study, that used 2008 data, it is estimated that $80 to $112 billion of face amount in policies lapsed that year were on seniors 65 and older.

So large amounts of life insurance are lapsed by seniors each year and yet the life settlement industry wants more policies to invest in? What is wrong with this picture?

Lack of knowledge is the key to the supply problem. If everyone who could have been eligible for a life settlement knew about this option, policy flow would take care of itself. As financial advisors, we owe it to our clients and their advisors to be sure that they know of the life settlement option when a policy is about to be lapsed or surrendered.

What really highlights the need for additional knowledge is to read though the ads in AARP Magazine. How many readers wish they could afford scooters to get around, lifts to get up steps, walk-in bath tubs, hearing aids or home health care? How many of these same folks are lapsing their insurance because they no longer can afford the premium payments, and how many of these same folks could use a source of money to help pay for things that would enhance the quality of their remaining lives?

As insurance professionals, it's our responsibility to stay in touch with our clients, to review their policies, their current objectives and their financial resources. If a life settlement could be the solution to a problem, you owe it to them to bring up the topic at the time when the dollars can be most meaningful and before they lapse or surrender their policy. As you uncover more information that could lead to a settlement, please be sure to give us a call. On behalf of your clients, remember - it can't hurt to try, it can only hurt not to!

When asking the former President of Connecticut Mutual, Sy Raboy, what he thought of life settlements and the future of the business, he said, "That's easy - it's good for the consumer, and so it's here to stay!" We couldn't have said it any better.

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