

Robin & Peter on LIFE SETTLEMENTS



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7 of the Most Common Life Settlement Situations

A life settlement can be a great alternative to accepting the insurance company's surrender value, if any, for a policy that is about to be lapsed or surrendered. While there are many reasons a policy may be terminated, certain scenarios are the most common. Keeping an eye out for these situations is one more way for you to help your clients.

(1) The sale of a business or other illiquid asset. A policy bought for a buy-sell agreement or estate liquidity may become unnecessary. Compounding the problem is that the business was typically paying for the policy in some manner; either directly, if the policy had been business owned, or indirectly, through the use of a bonus or split-dollar arrangement. With the business no longer in the picture, both the need for the policy and the ability to pay for it may have vanished.

(2) Business owner retiring or exiting from business. Business owners frequently acquire a number of life insurance policies in the course of operating their company that are no longer wanted upon retirement or termination. These include buy-sell, key person, fringe benefit, creditor protection and even pension policies. Like #1, keeping a policy that is no longer needed without a business to pay for it can be problematic.

(3) A decline in estate value and/or a decrease in estate tax liability. Both today's struggling economy as well as the drastic reduction in estate tax liabilities brought on by the Taxpayer Relief Act of 2012 (ATRA) make this particular scenario quite common. Keeping the policy, however, might still be a good deal for their heirs, but people are typically reluctant to keep more life insurance than is absolutely necessary.

(4) Term policies or riders that are about to expire, lose their conversion privilege or come to the end of their current premium guarantee. Term policies are among the most likely life settlement prospects to be overlooked. Many advisors and clients don't realize that a term policy (including group term), if convertible to Universal Life, can be sold in a life settlement. Since term policies generally don't have any cash

surrender value, a life settlement can truly provide "found" money. Furthermore, these situations typically result in a conversion sale in addition to the settlement.

(5) Retirement. When retiring, people usually evaluate their financial resources and expenses. At that time, it is common to find policies, bought to replace income upon death of a wage earner, that are no longer needed. Additionally, the cost of such policies, especially if term insurance, may become unaffordable. These policies can be a great candidate for a life settlement and the proceeds can really make a difference in retirement. With the aging of the baby boomers, there will be an estimated 10,000 Americans reaching retirement age every day for the next 16 years. This represents a massive market for potential life settlements.

(6) The policy is no longer affordable due to policy performance. Interest rates have declined steadily and have been at historic lows for an extended period of time. Many policy owners are now being blindsided by premium requirements that dramatically exceed what they expected to pay. This premium surprise may not only go beyond their budget, but it may also disturb their estate plans by exceeding their annual gift tax exclusion.

(7) Chronic illness. While chronic illness would ordinarily be a time when the death benefit of a life insurance policy would seem most imminent, certain illnesses are long-term in nature and require very costly medical or custodial care. When all else fails, a life settlement can provide critically needed funds to help pay those expenses.

After all alternatives have been considered and the conclusion is that it is time to lapse or surrender a policy, a life settlement can offer significantly greater salvage value. By recognizing likely life settlement situations, you can help your clients to avoid missing out on a life settlement opportunity which could make a meaningful difference in their lives.

As situations come up, be sure to give us a call to see if a life settlement could work. As we are often heard to say, "it can't hurt to try - it can only hurt not to!"

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