

Robin & Peter on LIFE SETTLEMENTS



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Surrender Value for Term Insurance?

Term life insurance that is convertible to universal life continues to be the hottest prospect on the life settlement market. Yet, strangely enough, many producers, financial advisors and especially accountants and attorneys are unaware of the term life settlement option for their clients. Why do term policies make exceptional candidates for a life settlement? They are a win for policy owners, producers and investors.

From the policy owner's standpoint, term coverage by its very nature is bought to cover a temporary insurance need for a limited duration. When that period of time expires or the specific need ends, the term insurance is typically allowed to lapse without value, but it may not have to if a life settlement offer can be obtained.

Some of the largest buyers of term insurance are businesses and their owners. They typically use term insurance to fund business continuation agreements, key man needs and debt protection. Term insurance is also popular to replace the income provided by a wage earner. This need reduces as the insured approaches retirement. A life settlement could be the perfect alternative to letting the policy lapse under any of these scenarios. If the policy owner wants to keep some, but not all of the coverage, they could convert a policy into two pieces, keeping some and selling the balance - a strategy that is generally only available with term and not existing universal life policies.

In addition to declining needs, another policy termination flag is when it reaches the end of its guarantee period and premiums usually jump to unaffordable levels. If there continues to be a reduced need for coverage, it may be possible to sell a portion of the policy and use the life settlement proceeds to help pay for continuing the balance of the term or converting the remaining coverage.

Lastly, as policies approach the end of their conversion period, it's important to evaluate the client's future life insurance needs and if they have decreased, a life settlement could uncover found money.

From an investor's standpoint, convertible term life insurance is attractive because the conversion policy is typically the latest version of a company's universal life product. The pricing may more be favorable than an existing policy since many products feature select and ultimate COI (Cost of Insurance) rates. This means a lower cost to carry the policy during the select period which can run 10 years, depending on the policy design.

Finally, from the producer's standpoint, keeping an eye out for terminating convertible term insurance means a steady flow of prospects that will either need new coverage, want to convert some or all of the existing coverage, or be in a position to benefit from a life settlement. Even convertible group term can be a prospective life settlement. Producers win by creating salvage value for lapsing term for their clients, as well as earning commissions for both the life settlement and the conversion of the term insurance.

Most importantly, however, term conversion life settlements are very time sensitive transactions. Once the right to convert expires, or the policy lapses, it usually cannot be sold on the life settlement market. This means keeping a watchful eye on your book of business. It also means that when you introduce term life settlements to accountants and attorneys, whose clients inevitably own some term insurance which can yield many additional prospects, that they need to know that their clients must be approached on a timely basis.

A life settlement may create a surrender value for term insurance. It is up to you to be sure that your clients and their advisors don't miss the opportunity. As situations arise, be sure to give us a call.

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