

Robin & Peter on LIFE SETTLEMENTS



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When Is a Life Settlement a Possibility -

What Does it Take for a Life Settlement to Work?

The most important factor to determine whether a life settlement should be considered is whether or not the policy is about to be lapsed or surrendered. In other words, a life settlement is an alternative to lapse or surrender, not an alternative to keeping a policy.

Each life insurance policy is uniquely valuable property and a great deal of careful analysis should be undertaken before letting it go. If a policy has value to a life settlement investor, that means it is projected to bring double digit compounded rates of return upon the insured's death. Therefore, selling a policy means foregoing that opportunity for the insured's beneficiaries.

But if keeping the policy is not a viable option (because it is no longer needed, wanted or affordable) and the policy is, in fact, about to be lapsed or surrendered, then a number of additional factors can be used to determine if the policy is a life settlement prospect:

- **Age:** 70 and higher is usually the threshold. Younger insureds require more significant health issues. Occasionally policies sell at ages as low as age 65, but the insured must have very, very serious health problems.
- **Health:** Some decline in health since the policy was issued is usually needed. Generally, the insured should now be highly rated or uninsurable.
- **Policy:** Universal life and term that is convertible to universal life are the most attractive contracts to investors. Whole life policies, which build significant cash values, would need to attract offers that exceed the surrender value and that rarely happens.
- **Survivorship:** If only one of the insureds is still alive, then the policy may be a fine life settlement prospect. Survivorship policies with both insureds alive are not commonly purchased, but it is possible if both insureds are in very poor health.

- **Face Amount:** Generally \$500,000 and up is preferred, but there are exceptions. The smaller the face amount, the shorter the life expectancy has to be for settlement buyers to be interested.
- **Insurance Company:** Generally well-rated companies are required.

Many producers would like to help their clients with policies that are about to be lapsed or surrendered, but they are not sure what makes a case or how to proceed. The parameters listed above should be of assistance, but if you are unsure, give us a call. We'll gladly help you determine if a life settlement is a possibility and guide you through the process. Remember, if in doubt, it can't hurt to ask - it can only hurt not to!

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