Robin & Peter on LIFE SETTLEMENTS

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Why Are Producers Still Being Prevented From Bringing the Value of a Life Settlement to Their Clients?

For years now, life settlements have been regulated by just about all the states. There are currently life settlement laws in 42 states, covering more than 90% of the American population. Despite now having an orderly and comprehensively regulated market, there are still insurance companies, broker-dealers and marketing organizations that prohibit their producers from being part of a life settlement transaction. Why shouldn't producers be permitted to bring the benefits of a life settlement to their clients?

Consider this case that we did on a 73-year-old woman who contacted her insurance agent for information about a $1,000,000 universal life policy on her life purchased 18 years ago, when her husband had a stroke. At the time, she was a school teacher but was able to take on the additional responsibility of caring for her husband, who could no longer work. The policy was bought so that if she predeceased him, there would be money available to hire a caretaker for him. And if she outlived him, there would be significant cash value to supplement her retirement income.

After her husband died, she expected to cash in her policy for $212,000, as shown on the original illustration. But her agent had to give her the uncomfortable explanation that, due to significantly lower interest rates than had been projected, her policy was only worth $52,000. The woman was, of course, extremely upset because she was counting on this money. Her health had deteriorated, and she needed additional funds for medical care, housekeeping services and general living expenses for herself.

The agent felt bad, but, fortunately, his associate in the next office had overheard the conversation and had an idea. He had just attended a seminar that we had given on life settlements and suggested that this could be the right situation for such a transaction.

Prior to starting the life settlement process, we learned that the woman had two children, so we suggested that, perhaps, the children could help her out instead of surrendering the policy. She was adamant, however, that she did not want to take money from her children. So we took her through the life settlement process and were able to get her an offer of $188,000 for her policy. Needless to say, she was thrilled and gladly accepted the offer. Her agent was both pleased and relieved as well.

If this was your mother or grandmother, how would you feel if her agent represented a company that forbid agents from helping clients with a life settlement as an alternative to the lapse or surrender of a policy? When a policy is about to be terminated and the choice is between $52,000 or $188,000 - why not do a life settlement? Why should consumers be deprived of this opportunity?

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