Robin & Peter on LIFE SETTLEMENTS

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The Life Settlement Market is Heating Up!

A number of factors have reignited the life settlement market with both consumers and investors showing rising interest.

From the consumer standpoint, the oldest baby boomers are reaching age 71, which brings them to or near retirement and closer to the age "sweet spot" for life settlements. As baby boomers retire, the need for retirement income can become acute and cash from a life settlement can be an important retirement income supplement.

Cash flow relief can also come from eliminating the premiums necessary to keep policies in force, especially those policies that are requiring substantially greater premiums than projected at purchase due to low interest crediting rates or higher mortality (cost of insurance) charges.

Additionally, as baby boomers continue to age, money becomes necessary to pay for both long term care and health care. Life settlements can be a source of funds to pay for those, often unexpected, expenses as well.

The increased estate tax exemption, $5,490,000 per person or $10,980,000 per couple with portability in 2017, means thousands of policies that were bought to offset estate taxes are no longer needed. Only about 1/10 of 1 percent of Americans will be subject to federal estate taxes under the current law. Additionally, even those liable for estate taxes will have reduced tax bills due to the lower maximum estate tax rate of 40%. And the likelihood of no federal estate tax at all looms large under the new administration.

While consumers have greater interest or need for life settlements, investors are showing an increasing appetite for life settlements too.

With the economy on the rebound, more capital is available for investment. Low interest rates, however, have investors searching for alternatives without additional exposure to the stock market which is already at record highs. Life settlements are primarily a "mortality play" - an investment option that is not directly correlated to the stock market or interest rates.

With more historical experience available, investors are also gaining a higher degree of confidence in life expectancy evaluations, the critical pricing tool for life settlement investors' buying decisions.

Finally, benefitting both consumers and investors is that life settlements are now highly regulated with 42 of the 50 states, covering more than 90% of the American population, having enacted legislation. This assures an orderly and more transparent marketplace.

As a trusted advisor, you should feel obligated to have an increased interest in the growing life settlement market as well. It is your duty, when the right situation for a life settlement presents itself, to make sure that your clients are aware of the opportunity. Life settlements are a great alternative to lapsing or surrendering a policy -- it is up to you to prevent your clients from leaving money on the table.

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