Robin & Peter on LIFE SETTLEMENTS

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To Sell or Not to Sell - That Should Not Be the Question!

Producers frequently call us to determine whether or not their client might be a candidate for a life settlement. Usually our answer begins with a qualifying list of the most common parameters: age of at least 65, some decline in health since the policy was issued, single life universal life or survivorship universal life with one deceased, or term convertible to universal life.

But the most important qualifying criteria should truly be whether or not the client is about to lapse or surrender the policy. If a policyholder still has a need for the death benefit or would like to continue the coverage and has the ability to pay for it, it should undoubtedly be retained rather than sold as a life settlement.

Another way this qualifying issue gets framed is by the client saying: "I want to sell my policy if I get a good enough offer." Essentially this means that client is not looking at a life settlement as an alternative to lapse or surrender, but rather as a way to make a quick buck. However, under current market conditions, what they would be doing is selling the policy at a deep discount. The beneficiaries will be much better off if the policy is kept - even if the beneficiaries have to pay the ongoing premiums themselves.

Life settlement purchasers base their offers on being able to score compounded double digit rates of return at the insured's death. With the increased accuracy of life expectancies and those double digit return requirements, how can an offer ever be good enough? If the buyer expects double digit returns, then the seller's expectation, if the policy were kept, should be even higher, as there would be no life settlement transaction expenses and, in most cases, tax-free death proceeds. Mathematically there really is no way for an offer to be "good enough." Furthermore, when an offer does come in under this circumstance, it puts the producer in the unenviable position of having to present an option that is not in the client's best interest, because it cannot be "good enough."

There was a time, when the life settlement industry was in its infancy, that life expectancy underwriters and life settlement purchasers could seriously err in favor of the seller. Those days are long gone. So when a client says, "I'll sell the policy if I get a good enough offer," what they really mean is "I don't intend to lapse or surrender the policy."

A policy should be sold in a life settlement when (1) there is no financially viable way to keep the policy or (2) if the need or purpose for which the policy was bought is no longer present. When either of these two conditions does exist, and the policy is going to be lapsed or surrendered, then the life settlement option should be front and center. The bottom line is, if you have a client that says I'll sell the policy if I get a good enough offer, the reply should be to question whether they would otherwise lapse or surrender the policy. If the answer is no, then they really are not a prospect for a life settlement. The true prospect, and the one for whom you can be of service to and make a meaningful difference in their life, has already decided to terminate their policy.

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