

Robin & Peter on LIFE SETTLEMENTS



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Is It Too Late for a Life Settlement?

Hardly a week goes by that we don't have an unfortunate conversation with a producer about a missed life settlement opportunity because the policy had already lapsed or been surrendered and the agent wasn't informed, in time, by their client or the insurance company to investigate a life settlement.

These missed opportunities generally fall into three types: 1) the policy had been surrendered for its cash surrender value, 2) the policy was allowed to lapse for non-payment of premium, or 3) the term policy reached the end of its initial guaranteed premium period and conversion privilege.

A client who surrenders a policy for its cash value has obviously decided that they no longer want, need, or can afford the policy and, unfortunately, may not inform their agent just to avoid an uncomfortable conversation. As a result, the first notice that the producer might receive is when the insurance company processes the surrender if he or she is the agent of record. If not the agent of record, the producer may never know or find out until it is way too late to do anything about it.

With insurance companies increasing mortality charges on many in force universal life policies and the extended period of low interest rates, clients are increasingly facing premium requirements that are much higher than originally illustrated. Failing to pay the higher premiums ultimately results in the policy's lapse. Agents are sometimes on top of these types of situations if they are the agent of record, but, if not, they are frequently unaware of this life settlement opportunity until it's too late.

When is it too late? It is too late when a policy has lapsed and gone beyond the grace period. Reinstated policies (even those not requiring evidence of insurability) are problematic for life settlement investors who justifiably fear that the reinstatement triggers a new contestability period. Life settlements generally cannot be transacted on policies within the contestability period (usually two years).

Term policies make great life settlement prospects if they are convertible to universal life. So the key date for a term insurance policy is when the conversion privilege expires. Depending on age and carrier, this could occur simultaneously with the expiration of the initial premium guarantee period. Many term policies, however, contain further limits on the conversion privilege. For example, a 15-year level term policy issued on a 60-year old might have a conversion privilege that extends only to age 70 or 10 years. The producer or client may or may not be aware of this critical timing issue.

How do you avoid these missed opportunities? For term policies, producers should note the end of conversion periods as they do insurance reviews with their clients. For universal life policies about to be lapsed or surrendered, if the producer is the agent of record and gets advance notice of the client's surrender action or non-payment, then immediate attention is necessary to inform the client of the life settlement opportunity before the policy terminates.

When the producer is not the agent of record, the solution to avoiding missed life settlement opportunities is more complicated. Clients are often unaware of life settlements and don't know that they could be missing out on found money.

What you can do to help your older clients and prospects:

- Educate them about life settlements and let them know you offer this service so that they will think to call you if they are going to lapse or surrender a policy you would otherwise miss.
- Make it clear to them that if they determine that a policy is no longer wanted, needed, or affordable, they must inform you right away as they could take an action that could jeopardize their chances of maximizing their policy's value through a life settlement.
- Make sure your follow up calendar includes critical life settlement dates.
- Be ever vigilant to lapses and surrenders by older clients.

Finally, be sure that all the accountants, attorneys and trust officers you know are aware that you offer life settlement services. Frequently, they know who is in financial trouble, who is retiring due to a disability or illness, who is selling a business, getting divorced, etc., even before we, as financial services professionals, find out.

Don't be our next call with a disappointed producer, but rather, be our next call to help you help your client unlock the hidden value in their life insurance policy.

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