

Robin & Peter on LIFE SETTLEMENTS



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Life Settlements: 5 That Didn't Get Away

Unfortunately, far too often, policies are lapsed or surrendered without investigating the possibility of a life settlement. Here are five recent cases that optimized the value of policies that otherwise would have been terminated with little or no value:

1. A 77-year-old male owned 3 universal life policies that were distributed to him from a pension plan when he retired, but he could no longer afford the premiums on them. He was able to sell two of the policies, with face amounts totaling \$761,200 for \$284,328. The sale proceeds allowed him to both improve his retirement income and maintain the third policy of \$411,047.
2. A male age 74 and female age 73 had purchased a \$1.5 survivorship UL policy to pay estate taxes. With the dramatic increase in the estate tax exclusion, they no longer had a federal estate tax liability and this policy was no longer necessary. Both had some health issues and they were able to sell the policy for \$400,000.
3. A 65-year-old male owned \$15 million of term insurance with its conversion period about to end. He could not afford to convert all the insurance. He sold \$10 million of converted term in a life settlement transaction for \$90,000. He then used the money towards the conversion of the remaining \$5 million that he kept for himself.
4. A single 59-year-old male, who owned a \$250,000 universal life policy, was newly diagnosed with ALS. With a life expectancy of about 8 years, he knew that he was facing significant expenditures to cope with his illness. The

policy was sold for \$135,000 and a portion of the proceeds was used to make his home handicap accessible.

5. A trust owned an \$8.4 million policy for estate taxes on a male aged 83. The policy was dramatically underfunded and would require unaffordable premiums to keep the policy going. A life settlement netted \$2,450,000. The proceeds were used to buy a new survivorship policy for the same \$8.4 million face and using the life settlement proceeds the future premium obligation became affordable. Although *sell and replace* life settlement strategies generally do not work, this one type of scenario, selling and replacing a single life policy with survivorship or a single life policy on a younger, healthier spouse, may make sense in the appropriate situation.

As you can see from the above examples, a life settlement can significantly improve a client's financial picture as an alternative to lapse or surrender. If you suspect that a life settlement might work, you owe it to your client to investigate the possibility, so be sure to give us a call. It can't hurt to try – it can only hurt not to!

Contact us:

Robin S. Weinberger, CLU, ChFC, CLTC
(617) 451-3343

Peter N. Katz, JD, CLU, ChFC, RICP®
(860) 937-2936

Ria J. Johnson, CFP®
(619) 920-4000

John McGinty
(954) 740-2600

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