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Life Settlements Offered by Insurance Companies???

Who would have thought the day would come that insurance companies are marketing policy surrenders instead of policy acquisitions, especially after years of disparaging life settlements!

For more than two decades, many life insurance carriers and their industry organizations have fought tooth and nail to impede the growth of life settlements. Certain companies have even gone so far as to prohibit their agents from pursuing a life settlement on behalf of their clients. Yet, recently, some of the country's largest life insurance companies have been offering selected policy owners enhanced cash surrender values, mimicking the benefits of a life settlement, in an effort to encourage them to surrender their policies.

As these offers are a proxy for a life settlement, some states have concluded that they are illegal under their insurance regulations either as an unlicensed life settlement, as a violation of Standard Nonforfeiture Laws or possibly as discriminatory by treating some policyholders better than others.

Through these offers, insurers have validated the founding principle upon which the life settlement industry is based: that a life insurance policy can be worth much more than its cash surrender value. Why would insurers make and package these offers with attractive marketing materials? It is not altruism. Insurers are trying to minimize their losses on policies that were priced or underwritten too aggressively. Getting these policies off the books, even if it costs the issuer some extra money now, is likely to save them money in the long run compared to the policy being kept in force until death.

Producers, quite naturally, are being asked to advise their clients about these offers. It must be kept in mind that insurers believe these policies are too good a deal for the consumer. They are priced too low and are too unprofitable and are undesirable to keep on the books - hence the additional incentive to surrender the policy.

While the enhanced cash surrender value might offer immediate gratification, **the primary concern needs to be whether the insurance coverage is still needed.** The increase in cash surrender value will still usually be far less than the death benefit of the policy. Additionally, the surrender proceeds, to the extent there is a gain, would be subject to income taxes.

For healthy policy owners, who can qualify for new coverage, a policy replacement may be a possibility. But given the overly favorable pricing of their current policy and the likely higher cost of a replacement policy, it may not be financially attractive even when offset by the enhanced cash value.

For policy holders that no long want their coverage and, in particular, those with health problems, **a life settlement should be considered prior to accepting any enhanced cash value offer. The life settlement offer could be significantly larger than the enhanced cash surrender value.**

Should you have a client that receives one of these offers, or is considering surrendering a policy for any reason, we are here to help you evaluate the best option and to explore the possibility that a life settlement might yield more money. Remember, it can’t hurt to ask – it can only hurt not to.

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