

Basic Fact About Life Settlements

What is a life settlement?

Put simply, it is the sale of an in-force life insurance policy to a third party for an amount greater than the cash surrender value that would be paid by the issuing life insurance company. After purchase, the buyer owns the policy, is responsible for all future premium payments, and is entitled to payment of the policy death benefit when the insured dies.

How much more than the policy's cash value could I get?

On average life insurance settlements provide a little over 4 times the policy's cash value.

Why would anyone pay me more than the policy's cash value?

Buyers of life insurance policies require that the insured provide information about their medical condition. Using this information they make an assessment of the insured's future life expectancy. This tells them for how many years they might have to make future premium payments and also how soon they might expect to receive the death benefit. The present value of these future payments is the basis for the price they offer to pay for the policy. The price they offer can be greater than the cash value because (in addition to other factors) their assessment of your future mortality will be different than the mortality that is used in calculating the cash value.

Why would I sell my life insurance policy?

Some examples might help:

- A gentleman is 70 years old, a widower with no other dependents, no longer needs the \$500,000 universal life policy he bought years ago to provide for his wife upon his death and he wants to sell the policy to supplement his retirement nest egg.

- A middle-age man age 50 bought a \$500,000 20-year convertible term policy 15 years ago when his only child was age 5. His son is now 20 and is taking over the business, so he's self-supporting. The father recently learned that he has a cancer that will most likely not kill him until after his term policy has ended but will shorten his life expectancy and make him uninsurable for a new policy. The term policy has no cash surrender value, but he is relieved that he can convert the term policy to permanent insurance. However, he can't afford the premium that the conversion policy would require. He opts to sell his policy now for \$250,000 to help support his wife after he's gone.
- A business bought a key-person life insurance policy on an employee who has left the company due to ill health. The business decides to sell the policy now rather than wait an uncertain period of time to collect the death benefit.

How popular are life settlements?

The life insurance settlement industry is very big and growing, so there are many potential buyers for your policy. The life settlement industry is growing 34% per year on average and is poised to grow substantially in the coming years. Contributing factors include an aging population and generally low balances in retirement savings accounts.

If I'm interested, what are my "next steps"?

Give me a call so we can discuss the specifics of your situation and I can give you my professional advice. No cost. No obligation. If your situation is such that a settlement transaction is a possibility, I'll need to collect some medical information, get a copy of your life insurance policy, and we will need to get your existing insurer to provide a projection of your future policy values.