What You Need To Know About A "Life Settlement" Option In A Life Insurance Policy

By Henry Montag

After you've driven a car for a number of years you'll probably decide to sell it or trade it in for a newer model. Similarly if you decide to move and sell your home after a period you would find a buyer on your own or through a broker and sell your home to another. In both cases it's clearly understood that if you entered into a transaction to sell your property to another, assuming you had a meeting of the minds and that you were the rightful owner, then you were able to enter into that transaction.

It should come as no surprise that if you wanted to sell a life insurance policy that you owned you could do so as well. Unfortunately that simple strategy is not well understood by a great majority of individuals, who just stop paying the premiums on their life insurance contracts, and allow their contracts to lapse without value. Or for those that turn their Life insurance policies in to their insurance company in exchange for the cash value stated in their policies, without ever first exploring whether they may be able to receive a greater value by selling their policy on the secondary market. So despite the fact that 42 states have enacted legislation regulating the Life Settlement industry the great majority of individuals today are not aware that this most significant feature even exists.

To summarize: a Life Settlement is an individual selling their life insurance policy just as they would any other asset they own. If your life insurance policy is owned by a trust then both the Insured and the trustee/owner must both agree to sell the life insurance contract. But why would someone want to sell their life insurance to someone while they're alive? Here are several reasons that make a great deal of sense:

•When an individual has a term policy that's about to expire, up to age 70 or 75.

•When the Insured no longer needs the Insurance for their beneficiaries, because of the death of a spouse

•When the reason for the Insurance is no longer an Issue, a sale of a business

•When the Insured needs the cash value for an emergency and is willing to cash in the policy

There are times when a Life Settlement won't work. For instance when a typical buyer, a hedge fund, which maintains your privacy, evaluates a batch of life insurance policies that Insured's have offered to sell through a Life Settlement broker, they are only interested in purchasing contracts where they believe the Insured is in poor health and has a shorter than usual life expectancy. Therefore they won't be interested in a policy with a maximum duration earlier than a person's normal life expectancy. So a term contract that is only guaranteed to last to age 83 is of

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no interest since a person's normal life expectancy might be to age 85. The investor's want the advantage on their side not the Insured's.

But far and away the majority of the times I've seen a Life Settlement used is when an Insured or trustee reads a letter from their life insurance company notifying them that although they've paid their premium over the last 20 or 25 years that their life insurance coverage is going to expire years earlier than they thought. And if they want the Life insurance coverage to last up until the person's normal life expectancy they would have to pay a significantly higher premium. This occurs all too often because of the sustained low interest rate environment we've experienced, combined with neglect on the part of the owners of the insurance policies to properly manage and adjust the adequate amount of a premium needed over the last 2 decades. Often times once the Insured discovers the cost needed to keep the policy in force they may decide its more than they want to or are able to pay and a Life Settlement is an ideal solution, but only if someone makes them aware of its existence.

Imagine going from a liability of having to pay an increased premium in order to retain the value of an Insurance contract, to being able to sell an asset that you didn't believe had any value. Just at a time when people are living longer and realizing that they'll need to have their retirement dollars last a longer period of time, financial institutions are coming up with more creative ways to get some value from an asset that one would otherwise have to wait until death or until the asset was sold. The reverse mortgage is a perfect example of a regulated industry that guarantees an Individual the ability to obtain a monthly or lump sum payment from the value of their home for the rest of their lives, without ever having to sell it.

Another example is the insurance industry providing what's known as "living benefits" to its policy holders rather than making them wait until death to access some of their death benefits. The ability to access up to $116,000 from the death benefit of a life insurance contract is one such offer known as a chronic care benefit that will allow an Individual to access their beneficiary's lifeinsurance death benefit, to pay for their eligible long them care expenses and give them a better quality of life now rather than pay a death benefit to a beneficiary.

As with any financial transaction one must think ahead and make certain that you are not entering into a transaction for anyone's benefit other than your own, or for that of your beneficiaries later. Another important thing to keep in mind is that commissions for the sale of a life insurance contract are negotiable and that you work with an experienced broker licensed to do such a transaction and that you trust that this individual has your best interest in mind. It is always best to obtain more than one quote just to play it safe.

Much more to be said regarding the topic but for the time being it's important that you become aware of the Life Settlement industry and that you get any questions you may have answered well before you ever consider being a party to such a transaction.

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