

What is a Life Settlement?

A Life Settlement is a revolutionary financial planning tool that allows senior insureds to sell a life insurance policy that is no longer appropriate.

The policy is sold to a third party investment company for an amount greater than the cash surrender value which in turn provides the owner of the policy with a lump sum cash settlement.

There are no out of pocket costs to the insured or policy owner.

What is the Value of a Policy?

The present market value of a policy is determined by the following factors:

- Premiums required to maintain policy
- Current cash values or loans, if any
- Financial status of the insurance company
- Age and health of the insured
- Life actuarial tables
- Current market interest rates

Who Qualifies?

People age 65 or older with a medical condition and/or a change in health since the policy was issued. Life expectancy can be as low as 4 years to a maximum of 15 years.

What Type of Policies Qualify?

The insurance policy should have a minimum death benefit of \$250,000 and be with companies rated 'A' or better from Standard and Poor's. In most cases there is a 3 year minimum issue date.

- Universal Life
- Term Life
- Whole Life
- Group Policies
- Variable Life
- Survivorship Life
- Adjustable Life
- Joint First to Die

Case Examples

- Male age 74 - \$1,000,000 universal life policy with \$63,000 cash surrender value
- Wife died and coverage was no longer needed
- Policy was sold for \$265,000
- Insured/owner purchased an annuity with the net proceeds.

- Female age 83 - \$2,000,000 universal life policy with \$120,000 cash surrender value and an annual premium of \$80,000.
- Due to low current interest rates, coverage was projected to lapse in 3-4 years
- Policy was sold for \$200,000.
- Using the settlement proceeds, new coverage was obtained with a lower annual premium of \$76,000 and the policy was guaranteed to age 100.

- A 74 year old male was about surrender an \$850,000 policy for \$118,000 and gift the funds to his favorite charity.
- His financial advisor suggested a life settlement. The policy was sold for \$210,000. He gifted the \$118,000 to the charity. He put \$92,000 in his pocket. With the cost basis of the policy and the deduction for the gift, there was no tax due.



A life insurance policy is a marketable asset.....

Planning Applications

Below are a few circumstances that would be appropriate for a life settlement transaction:

Personal Circumstances

- Policy has not preformed as anticipated
- Beneficiary has deceased
- Children are now grown
- Desire to change from single to survivor policy
- Divorce changes planning needs
- Change in estate size

Business Changes

- Buy / Sell funding no longer necessary
- Key person has left company
- Business is sold

What is the Settlement Process?

The owner of the policy fills out a brief application, which includes authorizations to obtain medical and insurance information. These forms are submitted along with a copy of the policy, an in-force ledger, and medical records, generally for the past two years, which are reviewed by an independent third party evaluator. No medical exam is required.

The case is submitted to numerous purchasing companies (providers) willing to make the highest offer for the policy. The entire process normally takes about four to six weeks.

If the offer is accepted by the policy owner, closing documents are signed, and the settlement is paid in a one time lump sum payment. The owner has no future premium obligations.