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I N S U R A N C E

How to Turn Your Life Insurance Policy into a Stack of Cash...

by Evan Belaga CFP, CLU, ChFC, Guest Editor, *The Oxford Club*

Is there anything better than when a plan really comes together? In my line of work – insurance – I get a chance to make that happen quite a bit.

For example, recently, I had an opportunity to help a 67-year-old client purchase a \$1 million, 10-year term life insurance policy to fund a buy-sell agreement (a contract which allows for a buyout of a business should a party to ownership depart).

It took several months to get him approved, but we got him the policy with a \$13,000 annual premium. Three years later, he no longer needed the policy and was going to let it lapse.

The moment he told me of his intentions, I asked him how his health was. He said it was good, all things considered. So I told him that there was a possibility that we might find a buyer for his life insurance policy.

The process took several weeks while we asked his doctors for medical records. But in the end, my client got a check for \$300,000 (no strings attached) for walking away from his policy— one he was planning to let lapse, anyway.

What we're talking about here is a life settlement (also referred to as a viatical settlement or a senior settlement), which is the sale of an existing life insurance policy to another party. Policies sought by buyers are typically limited to only those folks with a limited life expectancy.

Of course, we all have a "limited" life expectancy, but in the world of life settlements, it's generally around 15 years or less.

Such a sale presents a unique opportunity to extract the maximum value of an active life insurance policy, and gives the owner of the policy (typically a senior citizen) a chance to repurpose the funds for whatever financial needs they may have.

Until recently, the owner of an unneeded or unwanted policy had two options: 1) sell the policy back to the institution that issued it for its cash surrender value (if any), or 2) simply let the policy lapse.

But in recent years, a secondary market has emerged, which let's policyholders realize the full market value of their policies by selling them.

Amazingly, less than 1% of the term life insurance purchased by Americans ever results in a death claim, as they're intended for only short durations. And many who buy permanent policies drop them years before they die.

But with a life settlement, your life insurance policy can be shopped for a buyer in the secondary market, allowing you to select the very best offer.

Are You a Potential Seller?

We needed my client's medical records to complete a life expectancy projection, which would determine what, if anything, a financial institution might be willing to pay for his life insurance policy.

Over, please...

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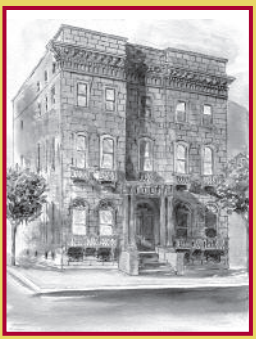
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Based on a variety of factors (age, health, medical history, etc.), someone figures out how long you're going to live, and then tries to calculate whether they can make money by taking over the payments on your life insurance policy.

Those with the shortest life expectancy will get the best return for their sale.

Ideally, if you own a permanent cash value policy, you should expect a settlement that's at least two- to three-times larger than the cash surrender value of your existing life insurance policy.

In most cases, the policy being considered for sale is not performing to the expectations of the policyholder. Or the original need for the policy has changed. Or the premiums to keep the policy current have become a financial burden.

Getting the Ball Rolling...

Any of the above reasons may warrant selling the policy, so long as you're over the age of 65 or have significant health challenges (and are considering surrendering or lapsing a life insurance policy).

When properly employed, a life insurance settlement offers you an opportunity to benefit from no longer wanted or needed insurance coverage.

Your original policy can be readily converted into the means to purchase other financial products, to complete an estate plan or travel around the world – or whatever else!

Of course, the financial crisis has had an impact in this area of finance, too.

As you know, capital markets have yet to thaw from the credit crunch, as such, things have tightened up for these types of transactions, as well. So it's a buyers market right now. But life settlements still represent a very worthwhile endeavor in some instances.

If you're interested, a settlement specialist can do a quick non-binding appraisal to determine whether you will benefit from this type of transaction.

And take note that this service should be rendered free of charge. Don't hesitate to call me with any inquires. *OC*

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The "Back Story" on Life Settlements

Life Insurance Companies weren't happy with speculators buying the policies of the folks they were insuring. It was throwing off their lapse rate assumptions and their actuarial calculations, if more policies were kept until a death claim.

The phenomenon dates back to the mid 1980s, when AIDS first appeared. All of the sudden, a slew of young, healthy people found themselves terminally ill and unable to work or pay their life insurance premiums.

But rather than not pay the premiums, friends would lend the sick person money, which they recovered (and then some) when the person died in 12 to 18 months. And just like that, everyone wanted a piece of the action.

Before long, little old ladies were promised double-digit returns on the high-grade life insurance contracts of AIDS patients with very short life expectancies.

However, AZT cocktails and other drugs ultimately turned AIDS from a short-term death sentence into a long-term manageable illness.

Thus, those same little old ladies – and everyone else who invested in these policies – were abruptly stuck with a lot of investment uncertainty.

Evan Belaga is a Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC). He's specialized in life, disability and long-term care insurance for individuals, businesses and associations nationally since 1982. To request an analysis of your existing life insurance policies for settlement or to discuss any other life insurance needs, feel free to e-mail him at Evanb@InsureEZ.net or call 443.758.4888. Visit www.InsureEZ.net to read other related articles and to find useful calculators pertaining to insurance products.



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