

What You Need to Know About Life Settlements

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Life Settlements are a relatively new and unique financial planning tool that is recognized as a viable vehicle for creating liquidity from an unwanted or unneeded life insurance policy.

Until recently, the only choice for individuals who wished to liquidate a life insurance policy was to let it lapse or sell it back to the original insurance carrier for its current net cash surrender value. With the advent of the Life Settlement market, policy owners can now access fair market value for their policies — giving qualified individuals the opportunity to receive a much higher payout than the cash surrender value.

In a Life Settlement, a policy owner sells his or her unwanted or unneeded life insurance policy on the open market to a third party (an institutional buyer). The buyer assumes ownership of the policy and receives the death benefit when the policy matures.

There are clear financial benefits to a Life Settlement, including:

- Eliminating premiums on an unneeded or unwanted life insurance policy
- Generating more cash than if the policy were surrendered
- Redirecting funds from a dormant asset to better serve current financial goals
- Providing cash for charitable causes, gifts, medical expenses or any other purpose
- Using proceeds to purchase a more efficient, up-to-date model of life insurance

In order for a policy to be eligible for a life settlement, it must meet the following criteria: The policy owner typically must be age 65 and older and the policy must have a face value of at least \$100,000. Most policy types (term, whole life, universal life, joint-life, etc.) are eligible if they were owned for at least two years. The policy can be owned by an individual, a trust or a corporation, providing the insured qualifies.

For example, a 75-year old male had a \$1 million 20-year convertible Term Life policy with a cash surrender value of \$0. When his wife died, he realized he no longer needed the coverage. He asked his financial advisor what his options were. His advisor recommended that he consider a Life Settlement. A Life Settlement expert was able to take his Term Life policy - which had no value in it and sell it on the secondary market for \$175,000.

With life settlements finding growing acceptance, it is increasingly evident that adding this new planning tool into your portfolio of financial offerings is an option worth exploring.