



## Is Life Settlement The Next Untapped Goldmine for Seniors?

Ok, I'll admit it – I'm a bit biased about life settlements. Someone close to me recently received a small but respectable chunk of money from an unwanted insurance policy. They used the money for some fun things and to pay bills, and it got me interested in knowing more about how they did it.

As a result of this, and because I had never even heard of life settlements before, I started investigating this opportunity. What I discovered astounded me. Life settlement has been around for decades. Today it is an industry that is exploding at a growth rate of 20% or more each year, according to Conning Research of Hartford, Conn. In fact, in the last 12 months alone over \$11 billion of life settlement transactions have taken place in the U.S. Large institutional investors like Warren Buffet's CoventryFirst are purchasing billions a year in policies.

Most seniors are not aware that they can potentially sell their existing life insurance policy instead of taking penny's on the dollar for the money they have saved in their whole policy over the years, or, in the case of term policies, getting nothing by letting the policy lapse or turning it back to the insurance company. Seniors who have life insurance policies of any kind, and who no longer need or want their policy can now sell it to investors in this secondary market.

### **Is it Legit?**

An insurance policy is an asset just like a house or car. Owners can legally sell their policy to others and transfer the title, rights and obligations to their policy over to the new owner and receive cash for their policy. They can use the cash in any way that they like.

In September 2004, the *Wall Street Journal* wrote, "Life Settlements can make sense for sellers who no longer need coverage and no longer want to pay premiums. Selling an unwanted policy increasingly is becoming a financial management tool for older people who face a cash crunch, who don't want to rely on children for financial support or who are trying to find money for costly long-term care insurance. Some holders of term policies sell them because they've found equal or better insurance coverage at a lower rate."

"For people with universal life coverage, which combines a death benefit with a savings component, the value of a policy in a life-settlement transaction is generally at least three times the underlying cash value of the policy...Even term policies, which have no

underlying cash value and typically disappear at the end of a set amount of time, are worth something – often between 10% and 30% of the policy’s face value.”

The article references three examples where policies were sold in life settlement transactions:

1. \$248,947 was paid for a \$1 million term policy held by a 66-year old.
2. More than \$232,000 was paid for a \$2 million universal policy that had a cash value of \$53,300.
3. \$160,000 was paid for a combined policy on a man in his 60s. The owner said, “I thought they had no value – I would have just turned the policies in for nothing.”

In my research I discovered that seniors often have the same basic questions when trying to understand the opportunity of life settlements.

**Q: Will my insurance company let me sell my policy?**

Yes. Once a life insurance policy is issued and put in force it is the property of the contract owner – you. Much like any other asset, you have the right to dispose of the policy in any manner that you may choose after the contestability period has passed (typically the first one or two years of the policy).

**Q. Are there any restrictions on how I use my life settlement funds?**

No. Proceeds from a life settlement are not restricted in any way. It is your money to use any way you desire, however, some taxes may be due on the proceeds. You should consult your tax advisor.

**Q. Are there any medical exams or application costs?**

No. Usually not if the company is above-board.

**Q. How do I know if my policy will qualify?**

Most types of individual life insurance policies (and many group policies) qualify for a life settlement. A buyer can work with virtually every policy type including term, whole, universal, variable, group or joint survivorship. Policies may be owned individually, or through corporations, foundations, trusts, non-profit organizations or businesses. In some states, under certain circumstances, a policy less than two years old may qualify for settlement.

**How Do You Sell Your Policy?**

There are several companies that can handle a life settlement policy sale – and the list is growing – but the trick is to find one that will make the process simple and fast. One of the top sites on my list is [www.lifeselementchoice.com](http://www.lifeselementchoice.com). This is because I was befuddled by how complex many of the web sites were, and I wanted to simplify the process for Seniors. At the site you'll find a simple form to fill out that let's you start the qualification process.

You'll also want to work with companies that uphold the basic principles of the National Association of Financial Advisors (NAIFA). Get any offers in writing. They should be no obligation offers and in most cases, the work required to get an offer presented should be free to the seller. In fact, the better companies make the entire process free to the seller – all the way through to the sale of the policy. Usually the entire process will take between 30 and 60 days from start until finish. And remember, even though the money is yours to use any way you want, you may need to pay some tax on the proceeds, depending on your situation. Be sure to consult your tax professional for more information.

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