Innovative Insurance Solutions

What is Your Life Insurance Policy Really Worth?

By Steve Shorrock, ChFC

Most people consider their life insurance policy to be a valuable asset; otherwise they wouldn't continue to pay premiums year after year. Determining just how valuable, however, has traditionally been the exclusive province of professional actuaries.

On the surface, it is a simple question with a simple answer. Should you die while insured, your designated beneficiary will receive the face amount of the life insurance policy (less any loans or liens outstanding) on a tax free basis. From a total return standpoint, nothing can even approach the return on a life insurance policy when only a few premiums are paid prior to the demise of the insured. Unfortunately, the insured individual is not in a position to reap the benefits of what turned out to be a very good decision... at least for their heirs.

No one, of course, plans to die; the life insurance policy is "just in case." The traditional measure of value for a policy is the cash surrender value. In most cases, however, the surrender value grows very slowly in the early years of the policy and is generally less than the sum of the premiums paid, and some policies (such as term insurance) never generate any cash value at all.

Is a policy without any surrender value worth nothing, and if so, why continue to pay premiums?

Any actuary can answer that question. The policy does have a significant value, which is equal to the present value of the policy proceeds (the death benefit) less the sum of future premiums; a calculation which depends upon the life expectancy of the insured.

So all you need is an extensive mathematical education and to know exactly when you are going to die—not very helpful for most of us.

In recent years, a better answer has evolved, at least for those to whom the question is the most relevant—seniors, retirees, and those where their health has changed since the policy was issued. It is called a "life settlement" or a "senior settlement."

A life settlement involves the purchase of an in force life insurance policy by a third party (which is generally an institutional investor). This "secondary market" for life insurance policies is experiencing tremendous growth, and the demand for policies far outweighs the supply of policies offered for sale—a classic "seller's market."

Life settlements are generally available to those who are 65 or older, or younger insureds who have experienced a significant change in their health status. For those who qualify, a life settlement can convert a policy into a cash sum, which is often substantially greater than the policy's cash surrender value. A recent transaction paid roughly $500,000 to the insured for the sale of his $1.5 million life policy. The insurance was no longer needed and he used the proceeds for living benefits (i.e. retirement property) and charitable giving.

So who should consider a life settlement? Those individuals with estates large enough to be subject to estate tax, or those with financial dependents or substantial debt outstanding, continued life insurance protection is often the best possible answer.

When that need no longer exists because of changing circumstances, or in situations where the policy has performed poorly or premiums have become a financial burden, a life settlement is often a very attractive option. This is particularly true when compared to surrendering or simply allowing the policy to lapse.

Many financial advisers recommend at least considering a life settlement for those who qualify—even in situations where continued life insurance coverage is necessary. A financial plan where assets such as real estate or securities are not properly valued is fundamentally flawed; determining the market value of an in force life insurance policy can be equally important.

In many situations, an individual who qualifies for a life settlement is still insurable. Life insurance is a very competitive industry and prices have steadily declined over the past few years, so it's often possible to sell an existing policy and obtain new coverage for the same (or even less) premium outlay.

A qualified life settlement broker can quickly determine whether a particular policy is a good candidate for a life settlement and even provide an indicative value—all at no cost to you. Knowing the real value of your life insurance policy can be a valuable planning tool. If you're 65+ years old and interested in understanding the value of your existing policy for possible sale, please call us at 631-239-6655.

Northport resident Steve Shorrock is President of LifeVentures Corp, located at 291 Main Street in the heart of Northport village. Before moving into private practice, he served as a senior executive for a number of major companies, including a long tenure as the President and CEO of Bankers Life of New York plus CFO of the AmerUs Life Group and COO of Improved Funding Techniques, Inc., a private pension consulting firm. Steve has achieved insurance and financial planning designations of Chartered Financial Consultant (ChFC), Certified Long-Term Care Consultant (CLTC), and Fellow of the Life Management Institute (FLMI).

For a free consultation on the life insurance, long-term care insurance, annuity, 401(k) or life settlement needs of your family, business or if you would like a review of existing coverages, contact Steve today at 631-239-6655 or steve@lifeventurescorp.com

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