Some Insureds Now Receiving Smaller Paid-Up Insurance Policies From Life Settlement Transactions

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By Steve Shorrock, ChFC, CLTC, FLMI

Three years ago, the Life Insurance Settlement Association (LISA) reported that nearly half of all life settlement transactions resulted in the sale of a new insurance product. Today, some life settlement transactions actually result in the sale of a paid-up life insurance policy within the settlement. A small but growing number of Providers are now offering this option. Many seniors struggle with the costs of maintaining coverage, as low credited rates and longer life expectancies often result in underperforming policies. Simply surrendering the policy often leads to an unfavorable financial result, as the insured is left without the benefit of any policy proceeds at death.

Recently our firm, Veris Settlement Partners, settled a case for a 68-year-old man in poor health. He had a $5 million Universal Life policy which had been in-force for six years with a cash surrender value of $214,000. The insured was no longer able to afford the $115,000 annual premiums to maturity.

Through a competitive bidding process, Veris negotiated cash offers of up to $785,000, yet based upon a needs analysis performed by the financial advisor, the insured still needed life insurance proceeds for estate planning purposes and to protect his family. Veris requested pricing on paid up insurance, which while not commonplace in the settlement market, would accommodate the planning needs of the client. After further bidding, Veris was able to present an offer of a $2.3 million paid up death benefits via an irrevocable beneficiary designation (IB) with no further premiums required from the policy owner.

Sometimes, both cash and a reduced Death Benefit can be offered. An example is the recent case of a 77-year-old woman in declining health who had concerns about being able to afford long-term care. She also expressed the desire to leave some funds for her grandchildren's education.

Her financial advisor reviewed her portfolio and determined that she could not afford an extended period of long-term care. Realizing that her age, health and life insurance policy fit the basic requirements of a life settlement, this option was explored.

Her $2.5 million policy had been in-force for eight years and she was paying $86,000 in annual premiums to maturity. The Cash Surrender Value was $32,000.

Through a competitive bidding process, a cash offer of $210,000 was negotiated as well as $600,000 of paid-up death benefit, which did not require any future premium payments by the insured. This solution met both the estate planning and financial needs of the insured.

The provision of a paid-up death benefit via an irrevocable beneficiary designation still constitutes a life settlement, in that the ownership of the policy is transferred to the new owner (the investor), and all other rights under the policy are relinquished. Typically the life settlement contract will contain a provision that ownership of the policy will revert to the original owner should the investor for any reason cease to pay premiums on the policy.

Although this approach will not work in every situation, it can be a useful tool when the policy is no longer affordable but the need for a death benefit still exists.

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