

**SENIOR SETTLEMENTS
– TO SELL OR NOT TO SELL?**

By

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Life insurance has traditionally been sold as a property, an instant estate value created at the time of purchase by the policy's death benefit. Purchase a life insurance policy, the experienced life insurance agent emphasized at the point of sale, and absent any other property holdings, an estate was created for the insured.

Whole life products were created to endow at age 100, when the cash value was projected to equal the death benefit and the policy would be considered complete. Age 100 was picked as a distant goal, an age few insured were expected to reach. Nearly every insured could imagine that the maturity value of the policy would be paid before the policy endowed, realizing a gain for the estate over the premiums that had been paid. Until recently, few anticipated that age 100 might be a realizable goal for an increasing number of policyholders.

The thought to sell life insurance to a third party began with Viatical Settlements. The market emerged as the AIDS crisis began capturing headlines. Viatical Settlements were for the terminally ill, those who needed cash today, to pay medical bills and to meet financial demands prior to death. The market initially looked important and promising. Then medical treatments began to emerge for complex medical problems such as AIDS and many forms of cancer that before had been considered terminal. The entrance into the Viatical market of aggressive marketers of questionable ethics invited many investors to anticipate unrealizable gains, especially given the life extension that medical wonders began to promise.

So why is the Senior Settlement market taking on new interest in the life insurance industry today. An important shift in perspective has begun to emerge. Investment trusts are willing to purchase policies of seniors who are not terminally ill. The market has expanded to include seniors who want to stop paying high premiums for life insurance they no longer need. Rather than let policies lapse, seniors have begun to explore selling their life insurance for sizable gains, generally exceeding any cash surrender value the policy may have. In recent years, the Senior Settlement market has moved away from seeking only policies with \$1 million or more in face value. As seniors are able to sell

life insurance with as little as \$100,000 in death benefit, the market has expanded and a new opportunity for retirement financial planning has begun to emerge.

The Retirement Planning Balance – Do I Have Too Much Life Insurance?

During the growth years of a family, the question “Do I have too much life insurance?” is rarely asked. Life insurance agents are trained to illustrate loss of income for a family’s breadwinner and spouse, both of whom today are generally employed and working outside the home. Projections of college education for the children run into hundreds of thousands of dollars, to say nothing of mortgage that commonly run six figures. Once a testimony to ego, having life insurance coverage of \$500,000 or more on an individual life in the earnings years is no longer considered uncommon. As much life insurance as the family can afford is not an unreasonable answer to the question “How much is enough” in the economic environment of the new millennium.

The focus changes dramatically as a family approaches retirement. Premiums on many life insurance policies sold in the 1970s and 1980s continue to remain substantial or even increase as the insured approaches age 60. Many policies sold on the theory of “disappearing” or reduced premiums have failed to have the investment performance originally projected. Sadly, many life insurance policyholders approach retirement with life insurance premiums that amount to expensive liabilities to keep in force coverage that is less needed every day. Faced with burdensome life insurance premiums, many policyholders debate whether to let their policies lapse, taking cash values or non-forfeiture alternatives.

That the life insurance should be kept in force at all costs is a debatable point. Yes, children and grandchildren often stand to gain as beneficiaries. Yet the gain is not clear in every instance. Why should a retired life insurance policyholder keep in force a policy with \$250,000 face value, for instance, when a long-term care policy if owned as an alternative might end up paying out \$500,000 or more should the care situation materialize at the end of the policyholder’s life. Even from an estate position, the beneficiaries could stand more to gain from the economic protection afforded by the long-term care rather than see a parent’s estate be reduced to nothing by a long-term care situation. The ultimate realization of a life insurance death benefit may fail to replace the resources lost as the state reduced a person’s holdings to nothing before providing Medicaid benefits.

So the financial planning question is ultimately one of balance. In the family growth years, maximizing life insurance protection may well make sense. As a person ages and the life horizon changes, an appropriate balance may well dictate less life insurance, with the premium savings redirected to paying for the now meaningful alternative of long-term care.

A skillful financial planner should be able to measure current estate values and objectives with a variety of financial planning tools in hand. The appropriate mix includes some life insurance and a well-crafted long-term care program, together with a single premium immediate annuity or a Modified Endowment Contract used as a funding vehicle for both the life

insurance coverage that is continued and the long-term care program that is begun. This may be the more appropriate balance required to answer the question “How much life insurance coverage is enough?” for a person or family entering the retirement years.

Facing the Retirement Years Challenge: Cashing in the Property Value of Life Insurance

Reliable estimates circulating in the life insurance industry suggest that there is nearly \$490 billion of life insurance in force today on Americans over age 65. This is the largest growing segment of the life insurance industry, just as the senior population is the fastest growing demographic segment of the nation. By the year 2010, Americans over age 65 may own nearly \$1 trillion in life insurance in force. Experts estimate that Senior Settlements of life insurance may exceed \$10 billion over the next five years, reaching nearly \$5 billion per year by 2010. A market of this size represents a substantial opportunity both for agents with advanced planning skills and for insurance companies seeking to position creatively for the demographic bubble about to hit retirement years.

Yet working successfully within the Senior Settlements market requires skill. Simply suggesting to seniors that they may realize cash gains from the sale of life insurance may not be enough to invite them to seriously consider the opportunity. Many savings-oriented seniors do not feel they need more cash to meet living expenses. Windfalls may cause some seniors to react negatively, feeling that having too much cash on hand suddenly invites frivolous spending or risks loss. Moreover, Senior Settlements involve psychological hurdles. The policy will be sold to a third party who will own the maturity value of the policy and will realize the gain at the death of the insured. This may be an uncomfortable thought initially for seniors seeking to sell their policies.

Many seniors make the decision to sell profitably the now largely empty family home where the children were raised. A residence more adapted by modern design and appliances to senior living may profitably be sold, especially in today’s strong real estate market. Seniors who move to more favorable climates or to senior communities may realize a more enjoyable lifestyle made possible by shedding the large family home that for decades had been the family’s primary asset. Similarly the decision to sell a large life insurance policy follows the same theme, namely liquidating accumulated property that served a purpose during the years when children were being raised but now can be sold appropriately, with the cash repositioned to better serve the different needs of retirement.

The decision to pursue a Senior Settlement gains momentum when seniors appreciate fully the premium cost of maintaining a large life insurance. Simply allowing the policy to lapse, taking non-forfeiture values offered likewise seems a waste, too little return on the many years over which premiums have been faithfully paid. Nor does surrendering

the policy for the cash value make sense when a Senior Settlement can result in substantially more cash than is available in policy's surrender value alone. The true property value of life insurance is only realized by cashing in on the policy's ultimate estate value, the death benefit itself. The goal is to realize as much of that value now, while the policyholder is still alive, hence the importance of seriously considering selling the life insurance policy, just as the large family home was sold. The goal is the same – get maximum value now by selling an asset while the market for the asset is good.

Senior Settlements: The Art of Complementary Product Sales

Increasingly seniors recognize the importance of long-term care insurance (LTC). The barrier to many LTC sales is not the benefits of the coverage but the cost, especially as the client approaches the years when the policy may be most needed. A Senior Settlement may well free the cash needed to fund long-term care.

Senior Settlements fits nicely into a complementary suite of products designed for retirement financial planning. The lump sum received from a Senior Settlement may be used to purchase a Single Premium Immediate Annuity (SPIA) or a Modified Endowment Contract (MEC). Both products can produce a stream of income from a selected annuity payout structure. The income received from the SPIA or the MEC can be targeted to pay the LTC premium.

The MEC has additional benefits. By design, the MEC includes just enough insurance to qualify the policy for tax-deferred build-up of the cash value. The life insurance coverage that is provided “reloads” the estate with a tax-free death benefit for beneficiaries. Yet because of the reduced amount of insurance packaged in the MEC, the cost of insurance is more economically positioned. In this package, the MEC performs a second purpose, capable of providing a tax-advantaged annuitized payout that can be dedicated to paying LTC premiums.

The SPIA sold as a companion product to the Senior Settlement – LTC package is an easier sale. The SPIA is a more pure investment decision because the SPIA, unlike the MEC, has no underwriting considerations that require physical exams. The SPIA may well be the alternative when the client pursuing the Senior Settlement has more serious health problems. Again, the SPIA functions to be a repository for the lump sum received from the Senior Settlement, placing the proceeds into a savings-oriented tax-deferred setting, while providing an immediate tax-advantaged annuitized payout structure to cover LTC premiums.

These products looked at as a portfolio – Senior Settlements plus the MEC, an SPIA alternative, and a LTC purchase – provide a more comprehensive product mix available to balance the retirement financial planning situation of a senior who owns too much life insurance given current needs. By looking at Senior Settlement not as a stand-alone, the experienced financial planner can approach a more complex range of senior financial

planning needs, preserving current estate values as well as seeking to maximize estate values passed to beneficiaries.

END ARTICLE TEXT

SIDEBAR #1 Senior Settlement Case Studies

The following are recent case studies involving the sale of life insurance owned by seniors.

CASE HISTORY 1

Client:	70-year-old male with health complications.
Result:	\$1 million life insurance policy with small cash value. Insured sold the policy and received \$120,000.

CASE HISTORY 2

Client:	83-year-old female in relatively poor health.
Result:	\$4 million life insurance policy with an annual premium of \$168,000. Insured sold the policy and received \$1,360,000.

CASE HISTORY 3

Client:	87-year-old male & 82-year-old female.
Result:	\$2.3 million second-to-die policy with no cash value. The policy was no longer required and was going to lapse. Insured sold the policy and received \$300,000.

CASE HISTORY 4

Client:	71-year-old male in good health.
Result:	\$4 million universal life insurance policy with \$200,000 in surrender value. Insured sold the policy and received \$580,000.

CASE HISTORY 5

Client:	72-year-old male in good health.
Result:	\$850,000 term life insurance policy. Insured sold the policy and received \$110,500.

SIDEBAR #1

Senior Settlements and Companion Product Sales

The following cases illustrate how the sale of a life insurance policy via a Senior Settlement can be combined with other retirement-oriented financial products.

CASE HISTORY 1

Client:	63-year-old male in good health.
Result:	\$750,000 in a universal life policy with \$25,000 cash value. Insured sold the policy and received \$37,500.
MEC	Insured paid a \$37,500 as a single premium into a Modified Endowment Contract (MEC). The MEC has a death benefit of \$75,000.
LTC	Insured purchased a LTC policy (describe coverage including premium required)
MEC Pay-Out Strategy	Insured elects a payout option from the cash value of the MEC to correspond to the premium requirements of the LTC policy. (describe payout amounts).

CASE HISTORY 2

Client:	58-year-old female with health problems.
Result:	\$1.5 million in term coverage. Insured sold the policy and received \$52,000.
SPIA	Insured paid a \$52,000 into a Single Premium Immediate Annuity (SPIA).
LTC	Insured purchased a LTC policy (describe coverage including premium

	required)
MEC Pay-Out Strategy	Insured elects a payout option from SPIA to correspond to the premium requirements of the LTC policy. (describe payout amounts).

Author:

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