Close-Up On
Life Settlements

As Seen In
CALIFORNIA
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Uncover the Hidden Value in Your Clients' Life Insurance Policies

by Jim Passarelli

Some have called it the pearl inside the oyster while others have used the analogy of uncovering a hidden chest of gold. If you do not open the oyster or uncover the treasure chest, you will never really know what's inside your clients' life insurance policies. Great value may be locked inside these policies; by performing a simple life insurance valuation process you can uncover it for them.

Your clients probably know the value of their largest financial holdings, such as their house, stocks, bonds, and other investments, but not the fair market value of their life insurance policies. As insurance and financial professionals, your clients rely on you to make them aware of all beneficial alternatives. Do you know how to provide this information? The surrender value that the insurance carrier dictates is not necessarily the policy's fair-market value. For example, the perceived value for a term life insurance policy is zero.

Get The Policy Appraised

It is a good decision to have a policy valuated whether the policy is performing as expected or not. Unwanted or obsolete policies should always be valuated. Many financial professionals are valuating their clients' policies to determine market value with the idea that the newfound money, combined with more competitive products, could reduce or eliminate their clients' future premiums with a life insurance product of equal value death benefit.

A policy that is filling your clients' needs may no longer be the best value possible due to the trend of more affordable and aggressively priced insurance policies that have emerged over recent years. Just as many millions of Americans refinanced their homes to take advantage of lower interest rates, many professionals are advising their senior life insurance policyholders to have their policies valuated and consider all options.

It is financially responsible to have a life

insurance valuation performed. Armed with the knowledge of a policy's fair-market value, the policyholder may discover many more financial alternatives, such as reducing or eliminating future premiums on a new and more up-to-date policy, creating more comfortable retirement years, funding new needed annuities or long-term care insurance, settling debts, or immediately bestowing cash gifts upon family members or charities.

New Options

Many agents and advisors are performing life insurance valuations on the policies under their control. This valuation process will determine what a life insurance policy is truly worth. A secondary life insurance market has developed in the recent past as banks and institutional investment firms have realized the value in acquiring and holding life insurance policies. Industry experts estimate the life settlement market at over $4 billion dollars in 2004 and growing at a healthy rate. As a result, financial and insurance professionals can access the secondary insurance market using an established system to perform life insurance valuations. Life insurance policies sold in the secondary market for an average of 3.6 times the policy's cash-surrender value, according to a 2002 study by the Univ. of Pennsylvania's Wharton Business School.

Professionals can offer more favorable options than surrendering a policy, lapsing coverage, or continuing with burdensome premium payments. Two recent examples illustrate this point. A 77-year-old man had an $8.7 million life insurance policy with a $993,714 cash-surrender value. He could no longer comfortably meet the premium payments of $36,077 annually. His advisor helped him attain a life insurance valuation, which resulted in an offer of $2,600,000, which is $1,606,286 above his surrender value. The advisor and client put a portion of the newly found money into a new policy and eliminated the premiums for the client. The client also got a cash benefit of $500,000.

In another example, a couple had a $3 million survivorship policy with a surrender value of $693,758. The couple's advisor identified that this policy would run out eight years without premiums. The family needed coverage that would last for 12 years without payments. A life insurance valuation on their policy resulted in a $950,000 life settlement. This transaction created additional funds to carry a new policy to the needed period with no out-of-pocket expense.

Typical Candidates

A 2003 study, performed by Conning Research on the life settlement marketplace, revealed that more than 75% of the policies purchased had an insured who was 71 or older. Also, 73% of the policies were on males and 53% involved a life expectancy of six to 10 years. A typical life settlement is with a male in his mid-70s with a life expectancy of six to 10 years. A life insurance valuation is appropriate for seniors 65 to 75 who have had changes in their health status since the policies inception and for healthy seniors 76 and older. Eligible policy types include term, whole life, universal life, survivorship, or key-man policies. These policies may be owned by an individual, trust, corporation, or charitable organization.

Nothing Ventured Or Gained

A life insurance valuation should involve no out-of-pocket expenses, no medical exam, and no obligation to sell the policy before, during, or after the valuation is performed. You can launch the life settlement valuation process by having your client fill out a simple quote form. A life settlement brokerage company should obtain all necessary paperwork, cover all related costs, extend E&O coverage to the advisor (per transaction), and return multiple offers for each policy submitted. Your client's life insurance policy could be a diamond in the rough; determining its fair market value may bring radiant results. ❑

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