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Life Settlements Are Only Useful If Policyowners **Know They're an Option**

WRITTEN BY
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Every September, we honor Life Insurance Awareness Month – a month dedicated to highlighting the importance of consumer education and empowerment. But why wait until September? Life insurance is complex, even for the professionals involved in selling and providing it. It's no wonder consumers are left feeling confused and sometimes worse yet, misinformed.

One area in particular where the discrepancy is most striking is with the life settlement market. Life settlements, generally speaking, are widely misunderstood among consumers, and thereby underutilized. But a life settlement can be a great option for the right policyowner based on their unique circumstances.

At Proformex, we strongly believe that engaging and educating clients on all their options is the best way to ensure they're getting the outcomes they expect. Empowering them with the right information helps them make informed, meaningful decisions to support those desired outcomes.

We've compiled the following information about the history of life settlements, how the market has evolved, and why it can be a good option for policyowners to consider. We hope this serves as a guide for client-facing insurance professionals to use in their conversations with policyowners to better educate them on how they can get maximal value from their policies.

What is a life settlement?

Before we can dig into the history of life settlements, it's important to start with a basic definition. A life settlement is defined as the sale of an existing life insurance policy to a third-party investor for a payout that is greater than its surrender value, but less than its death benefit.

When a life settlement transacts, the buyer assumes all responsibilities for the policy, including premium payments, until the policy pays out. The buyer also becomes the beneficiary of the policy so that they'll receive the death benefit payout once the insured party dies. The seller receives an immediate cash payment that they're entitled to use however they wish. The cash payment is primarily tax-free for most policyowners.

Life settlements are legal throughout the United States because of the policy ownership transfer involved in the transaction. This makes a life settlement distinctly different from STOLI (stranger-owned life insurance), which is illegal. Life settlements are also different from viatical settlements, which is something we'll discuss in greater detail in the next section.

The evolution of the life settlement market

The life settlement market dates to 1911 with the U.S. Supreme Court case ruling of Grigsby v. Russell.

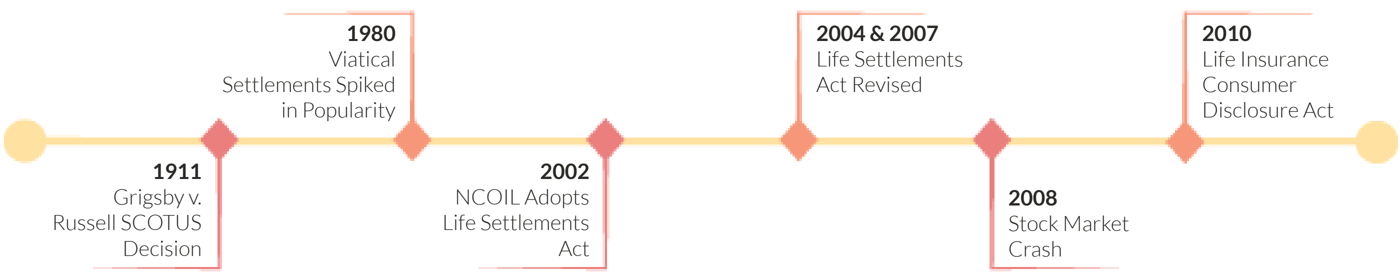
John Burchard, the policyowner, couldn't afford the premium payments on his life insurance policy. He sold it to his doctor, A. H. Grigsby. When Grigsby tried to collect the death benefit, the executor of Burchard's estate sued him to get the money and won. The case was then appealed to SCOTUS and in their ruling, Supreme Court Justice Oliver Wendell Holmes deemed life insurance as private property that can be bought and sold at will, likening life insurance to other types of property like stocks and bonds.

The case entitled policyowners to other rights including:

- owners can change the beneficiary, unless an insurer has explicit restrictions in place
- owners can borrow against the policy or use it as collateral for a loan
- owners can sell their policies to another person or entity

Life settlements were now legal but still modest in popularity and usage. It wasn't until 1980 that popularity spiked in the form of viatical settlements. Viatical settlements differ from life settlements in that the seller is chronically ill and has a life expectancy that is less than 2 years. The buyer in a viatical settlement pays a lump sum amount to the seller, and the seller loses the payout for their beneficiaries but gains immediate cash that can help with the sudden surge in medical care expenses and provide comfort in their final days. The reason popularity spiked around this time was largely due to the HIV/AIDS crisis.

Just two short decades later, the National Conference of Insurance Legislators (NCOIL) recognized a need for more regulation around the life settlement market. In 2002, they adopted the Life Settlements Act which defined the requirements for licensing agents and providers, life settlement contracts, reporting, advertising, and disclosures. The act was revised in 2004 and 2007 and is still in use today.



The life settlement market faced a second dip in popularity after the 2008 stock market crash as financial institutions pulled back from the life insurance market.

In 2010, NCOIL enacted more policy around the life settlement market in the form of the Life Insurance Consumer Disclosure Act. This act defines the written disclosures that must be provided to senior policyowners whose policies are at risk of lapsation.

Part of the written disclosure is required to communicate an owner's alternatives to surrendering their policy, including a life settlement.

With regulations in place to protect consumers and guide insurance professionals on how to transact these deals properly and prudently, life settlements are now widely regarded as a powerful tool for eligible owners. But what does an "eligible owner" really mean?

Who qualifies for a life settlement and why might they consider leveraging one?

Generally speaking, policyowners who are eligible for a life settlement fit the following criteria:

- the owner is over the age of 65
- the policy's face value is greater than $100k
- the policy no longer suits the owner's needs

Of course, exceptions may apply. But these qualifications are typically rather good indicators of whether a life settlement might be a wise decision for a given policyowner.

What are the reasons an owner may even consider a life settlement in the first place?

It all ties back to that individual's unique circumstances and desired outcomes. For some, perhaps the premiums on the policy were getting to be too expensive.

Other policyowners may consider selling a policy to free up cash flow to be spent on any number of other expenses, including but not limited to:

- supplementing retirement income
- covering unexpected long-term care or other medical costs
- paying down debt

What's important to remember and to communicate to owners is that there are no restrictions on how they spend their earnings from a life settlement. While there may be structural differences in how they choose to receive their payout (as a one-time payment or annuitized over a designated period of time), they are permitted to use the proceeds any way they see fit.

The only way a life settlement can be valuable to an eligible policyowner is if they know it's an option. Insurance professionals would be wise to educate their clients on this and all other options to help ensure desired outcomes are achieved.

Life settlements are a powerful tool when used correctly

The life settlement market has come a long way. Life settlements are a great tool for clients when used prudently. The key to unlocking value through a life settlement is by educating the policyowner on all their options. If and when a life settlement is the best way for an eligible policyowner to get the most out of their policy, they need to feel empowered and confident in their decision. That sense of empowerment comes from being presented with the right information at the right time. Don't wait until Life Insurance Awareness Month to see whether your clients know about life settlements; make consumer education a year-round initiative with the owners you support.

Proformex believes strongly in consumer education. It's why we help financial professionals arm themselves with the information they need to best consult their clients. Having access to the right information on the right policies at the right time facilitates meaningful client engagements. The result is the policyowner being informed and confident enough to make decisions that support their desired outcomes and the financial professional strengthening their relationship with that client.

To learn more about how Proformex helps insurance professionals, and in turn their clients, stay informed and achieve superior outcomes, visit our website.

About the Author - David Morris

David joined Proformex, LLC as Chief Marketing Officer in 2018.

Previously, David was CMO of MacroPoint, LLC. MacroPoint is a SaaS-based global technology freight visibility platform for shippers, brokers and 3PLs to get real-time visibility on the freight they have given to third party carriers. It sold to Descartes in August 2017.

He was Founder and President of the Communications Group from 2003 to 2011. The Communications Group was a digital fulfillment platform generating non-traditional revenue for media (TV, Radio, and Newspaper verticals) partners across North America.

Prior to founding the Communications Group, he founded Media Pro, Inc in 1995. Media Pro, Inc is a media buying and marketing consulting agency. Originally focused on TV and radio strategy and buying in the Business to Consumer vertical, the company expanded into Business to Business strategy and branding consulting as well as sports sponsorships with every major professional sports league and NASCAR.

David has been engaged in several SaaS startups as an advisor and investor. He also sits on the boards of multiple companies.

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