



“On The Money Report”

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“Insurance Insights” ---Special Report---

The Pitfalls of Cash Value Life Insurance.

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LIFE SETTLEMENTS

by
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The issue.

Life insurance is a necessary investment to meet any long term family wealth management goal. Life insurance is not an expense to be minimized, but an asset to be optimized. With correct management, it will perform beautifully. But without constant review and changes, it can become a very costly mistake.

Cash value life insurance, the type of life insurance that builds up cash value over time like Whole Life (WL) that credits dividends, Universal Life (UL) that credits interest rates and Variable Universal Life (VUL) that uses investments in mutual funds to build cash value, is **not performing as was illustrated.**

What caused the problem is the credited interest rates and dividend rates have been falling for the last 20 years. Over the last few years, the market returns have not been good. Your original illustration showed 11%, or 9% or 8% or even 6% crediting for the life of the policy, or market returns of 12% lasting forever. That is not a reasonable assumption of future performance.

The current crediting rate is around 4.5% for UL policies, and 5.5% dividend rate for WL; market returns are currently negative for the year. This means that the policy is not earning the money on the cash account to offset the rising costs of mortality and administration as was originally illustrated. There are a lot of other reasons, but those are the basic ones.

Premiums never vanish, only policies do. This is a true statement.

Life insurance must be reviewed and evaluated every time there is a credited interest rate change to the policy. An “in-force illustration” needs to be ordered and adjustments made, to prevent the policy from suddenly becoming too costly to maintain.

That is the reason there is a life settlement industry today. Life insurance owners and their advisors have not been evaluating the policies and making the necessary corrections as needed to make the policies work as illustrated.

If you are the trustee of a life insurance trust or have owned a life insurance policy for more than five years, your policy is in need of a financial review, and an “in force illustration” ordered. Then you can find out what needs to be done to correct the underperformance it has suffered. It has not and will not perform as illustrated, and is why the life settlement industry has evolved as one of the options to rescue the investment in a life insurance policy.

What is a Life Settlement?

A life settlement is the sale of any existing life insurance policy by the owner to a third party. The party that buys the life insurance policy is called a life settlement provider. Only institutional life settlement firms should be used in this type of exchange, such as: Coventry First, Peachtree Life Settlements, Living Benefits Services, Stone Street and Life Equity.

A life insurance settlement enables a policy owner to exchange a life insurance policy for a lump sum cash payment that is less than the face amount (death benefit), but more than the cash surrender value the insurance company would pay if the policy is surrendered or lapsed. Term life insurance can also be sold in a life settlement transaction. The lump sum payments for term insurance range from 10% to 60% of the term death benefit.

Who is eligible for a Life Settlement?

A person over the age of sixty-five (65). Some Life Settlement providers will only consider persons over 70.
The death benefit can be of any size, but not less than \$100,000.
The policy has been in force for at least 2 years.
The insured's life expectancy is between 2 and 15 years.
The insured's health has declined since the policy was issued.

What type of insurance qualifies?

All Term policies, Universal Life, Variable Universal Life, Joint Survivorship, Whole Life.

When to consider a Life Settlement option?

When the premiums become unaffordable.
To pay for living benefits like medical and long term healthcare needs.
As trustee of a life insurance trust, to meet your fiduciary responsibilities.
A forced liquidation due to divorce, financial hardship, or bankruptcy.
There is a change in estate planning needs.
Company/Partnership owns life insurance policies and needs cash.
The desire to live later years more comfortably.
Better use of asset dollars to meet family wealth planning goals.

Possible benefits of a Life Settlement.

A lump sum of cash to spend or invest as needed.
Elimination of insurance premium payments on an unwanted or unneeded policy.
The ability to purchase a more cost efficient and appropriate policy.
Receive considerably more cash above the cash surrender value of the policy than if it is just surrendered, lapsed or exchanged.

Some issues that may be affected by a Life Settlement.

Your spouse and any other beneficiaries will not receive the death benefit of the sold policy.
There may be a loss of life insurance coverage on your spouse or other family members, if the policy (or any riders attached to it) covers their lives.
You may incur tax consequences.
It could affect your ability to receive Supplemental Social Security income, public assistance, and public medical services including Medicaid.
The money you receive from the life settlement could be seized by creditors, trustees in bankruptcy, and receivers in state or federal court.

If you are considering the sale of a life insurance policy.

- Have an independent financial planner analyze your complete financial situation before you decide to go forward with a life settlement. Part of that service should be to have the life insurance policy evaluated in light of your family wealth management goals, to see if other possible remedies might be more appropriate for you in your situation. They may include conversion to a paid up policy, uses of Accelerated Death Benefits, increasing annual payments, extending the term of the contract, or even assigning it to a "third party" like your children.
- If selling appears to be in your best interest, have your financial planner obtain several purchase offers for your consideration.
- Never surrender or allow a policy to lapse until a thorough market evaluation has been done.