

Life Settlements Can Benefit the Growing Senior Market

by Larry Simon

As the Baby Boomer generation continues to grow, many seniors may be unaware of a valuable financial-planning option—life settlements.

Life settlements, which emerged on the financial scene in the 1990s, have given seniors new options for dealing with un-

professionals who are working with this demographic have an opportunity to tap into the growing life-settlement industry.

An Aging Population

The senior population is growing rapidly. In fact, the number of Americans aged 65 and older will more than double by 2030,

The aging of America has already opened the door to more financial professionals who are working with senior clientele for retirement planning, estate planning, and wealth transfer goals—many of whom are interested in working with life settlements. These clients may be looking for new ways to deal with life insurance policies or they



wanted, unneeded or under performing life insurance policies. In the past, seniors who no longer needed their policies or needed new insurance coverage could allow their policies to lapse or surrender policies for often-nominal cash-surrender values. Life settlements have expanded these options, making financial planning easier and more efficient for eligible seniors. Financial pro-

with some states seeing the amount of seniors rising to 25% of the population, according to a 2007 report by the Centers for Disease Control and Prevention (CDC) and The Merck Company Foundation. This expected increase will bring the senior population to 71 million, which is approximately 20% of the U.S. population.

may be unaware that there are other efficient ways to use the money from a policy to fund charitable donations or meet a number of other financial-planning goals. The continued growth of the senior market will only strengthen the life-settlement industry, providing more opportunities for financial professionals to get involved in the secondary market for life insurance.

Benefits to Seniors

Life settlements can be the optimal solution for eligible seniors who want to get rid of life-insurance policies that no longer make sense. The transactions may be appropriate for seniors for a number of reasons. The most common reasons include a change in financial situation, estate tax liability changes, family changes, lifestyle changes, new investment options, charitable giving, or changes in business ownership structures or succession plans.

Life settlements can provide a funding solution for unneeded or under-performing life insurance policies for seniors who have seen significant changes in their financial status or lifestyle or need updated life insurance coverage options. Seniors who are asset rich, but don't have the cash liquidity to purchase a more appropriate policy, can conduct a life-settlement transaction and purchase a new plan, while getting rid of expensive and unneeded policy premiums. Money earned from a life settlement can also be used to fund other financial goals through the purchase of other products, such as long-term care, retirement investment programs or even real estate transactions.

Life settlements can also benefit high-net-worth seniors who want to fund charitable donations using unneeded life insurance policies. It allows seniors to support favorite charities without dipping into their life savings. Such donations are especially beneficial for charitable organizations that cannot meet the premium obligations of a donated life insurance policy and have a more immediate need for funds. Instead of leaving the organization with costly premiums, the insured client can sell their policy into the secondary market and donate the proceeds to the charity. This option benefits the senior and the charity. The senior sees the gift make a difference during their lifetime and the charity avoids taking on high premiums to keep the policy in force.

The following case studies can help further demonstrate situations in which a life settlement transaction would be an appropriate and beneficial option for a senior client. Keep in mind that actual pricing varies depending on numerous factors, with average purchase prices historically exceeding cash-surrender value by 400% or more:

Case Study One:

A 75-year-old client has a \$2 million policy he purchased five years ago. Following changes in estate tax laws, the insured no longer needs as much coverage and does not want to continue to pay the premiums which have escalated from \$40,000 to \$60,000 due to lower than illustrated returns on the contract fund. The cash-surrender value on the policy is \$50,000, but if he sold the policy in the secondary market, he could receive pricing offers of \$460,000. The client no longer needs the policy and wants to donate proceeds to his favorite charity using the money from his current policy. The client cannot donate the policy because the charity cannot take on the ongoing payments. In this case, the client would receive \$410,000 more by conducting a life settlement and would be able to donate this money directly to the charity, making the transaction a more appropriate choice than surrendering the policy. What's more, the charitable contribution would fully or partially offset any taxable gains on the life-settlement transaction depending upon the client's tax situation.

Case Study Two:

A 79-year-old female client owns a \$1.8 million policy that was purchased 10 years ago. Her policy now exceeds her coverage needs and she wants to purchase a more appropriate life-insurance policy. She could sell her policy in the secondary market for \$500,000, which is \$350,000 more than the cash-surrender value. She decides to pursue a life-settlement transaction and uses the funds to purchase a new life insurance policy with the acquired money that better meets her needs.

Get Educated

Educational sources are available for financial professionals who are interested in life settlements including the Life Insurance Settlement Association (www.lisassociation.org) and the National Conference of Insurance Legislators (www.ncoil.org). These organizations offer detailed Websites and updated information on trends and regulatory matters affecting the industry, as well as necessary information for becoming successful in the growing market. Financial professionals can also access educational tools and continuing-education courses such as those offered as part of Life Settle-

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ment Awareness Month (www.lifesettlementawarenessmonth.com). They can also stay up-to-date on industry happenings by reading articles and testimonials offered in credible trade publications. □

Larry Simon is director, chief executive officer and president of Life Settlement Solutions, Inc., based in San Diego. Life Settlement Solutions and its management represent one of the most experienced institutionally funded life-settlement companies, having purchased life-insurance policies in excess of \$2 billion in aggregate face value to date. Life Settlement Solutions is well known for competitive pricing, strong customer relationships, service, compliance and strict adherence to regulatory requirements. For information regarding Life Settlement Solutions, visit www.ls-corp.com or call 858-576-8067.