



Retirement

What You Should Know About Life Settlements

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Older Americans might hear about opportunities to sell their existing life insurance for cash in transactions known as life settlements. A life settlement, sometimes also called a senior settlement, involves selling an existing life insurance policy to a third party—a person or an entity other than the company that issued the policy. The policy holder (seller) receives an immediate payment from the third-party offering the settlement.

If you're considering selling your life insurance policy—or have been approached to do so—protect yourself by understanding your existing policy and the details of any life settlement offer you might receive. Only work with licensed buyers and brokers, and shop around. You might find it valuable to engage a financial professional, estate planner or lawyer in the process of evaluating your options.

What is a Life Settlement?

If you own a life insurance policy that you no longer want or need, you can surrender the policy for its cash value or allow it to lapse. Life settlements present a third option: Sell your policy (or the right to receive the death benefit) to an entity other than the insurance company that issued the policy. That transaction is known as a life settlement.

The purchasers of life settlements, sometimes called life settlement companies or life settlement providers, generally are institutions that either hold the policies to maturity or resell policies—or sell interests in multiple, bundled policies—to hedge funds or other investors.

In exchange for your policy, you'll receive a lump sum payment. The amount you'll receive will depend on a range of factors, including your age, health, and policy terms and conditions. Such payments are generally more than the policy's cash surrender value (the amount you can collect if you cancel or "surrender" the policy before it matures or you die) and less than the net death benefit (the amount specified in the insurance policy or annuity contract, minus any unpaid premiums that are due and outstanding loan balances or other withdrawals).

In addition to paying a lump sum for your policy, the buyer agrees to pay any additional premiums that might be required to support the cost of the policy for as long as you live. In exchange, the buyer will receive the death benefit when you die.

Factors to Consider When Deciding Whether to Sell

A life settlement might make sense for you if you no longer want or need your current policy—or if you can no longer afford the expense of paying insurance premiums and are willing to give up or replace the coverage. Even then, however, proceed with caution. Here are some key factors to consider:

Ongoing Life Insurance Needs. If you're considering buying a new policy with the proceeds of the life settlement, will you be able to get a new policy with equivalent coverage—and at what cost? Your old policy will still be in force through the purchaser and may affect your ability to get additional coverage. Even if you can get a new policy, you might have to pay higher premiums because of your age or changes in your health status. If your goal is to retain coverage but lower the premiums you pay or otherwise obtain different features, you might want to consider options such as reducing your existing amount of policy coverage or making a "1035 Exchange."

Less Costly Alternatives. If one of the factors driving your decision is a need for cash, surrendering your life insurance policy for its cash value or pursuing a life settlement are not your only options—especially if you'd ideally like to retain your coverage. You might be able to borrow against your policy. You might also be eligible for accelerated death benefits, which allow an individual with a long-term, catastrophic or terminal illness to receive benefits on their policy prior to dying. Check with the company that issued your policy before entering into a life settlement.

Difficulty Determining Fair Prices. One of the hardest things to know when you're selling a life insurance policy is whether you're getting a fair price. The best way to make sure is to shop around. This can mean contacting multiple life settlement companies, using a licensed life settlement broker who will shop your policy around on your behalf, or contacting your investment professional or other financial services provider. You can also use a self-directed online exchange to get an estimate, though doing so may result in sales calls or emails.

Impact on Your Finances. The lump sum payment you receive in exchange for your life insurance policy can be taxable, depending on your circumstances. It may also negatively impact your ability to receive state or federal public assistance such as Medicaid.

Impact on Your Survivors. Consider your need for current income against the future financial needs of your survivors. Even if you've determined that they don't need the proceeds from your insurance policy at this time, ask whether there's a chance that this situation could change. If so, ask yourself whether you can obtain the liquidity you seek from other sources or by trying alternative ways to tap into the insurance proceeds as suggested above.

Access to Your Health Information. Any interim and ultimate buyers of your policy might have access to a great deal of personal information about you, including your health status, that in turn can be shared with other entities. You might also have to agree to provide periodic updates about your health, which also might be shared.

Protect Yourself

If you decide to go forward with a life settlement, protect yourself by asking the following questions:

1. Is the life settlement broker or provider licensed in my state? A growing number of states regulate life settlement companies and life settlement brokers to some degree and may require that they be licensed. Check with your state insurance commissioner to see whether the life settlement company or settlement broker you're dealing with is properly licensed—and whether either has a record of complaints. If you're working with an investment professional, use FINRA BrokerCheck to learn about their professional background, registration status and disciplinary history.

2. What will happen to my policy? Ask what the life settlement company buying your policy will do with it. Will they hold it themselves? Sell it individually? Or package it with other policies and sell interests in the package to other investors? The ultimate buyer of your policy will become responsible for paying the premiums and will collect the death benefit when you die.

3. What information will I have to provide? To whom? For how long? You'll have to authorize the release of medical and other personal information so that a buyer can determine how much to offer for your life insurance policy. Once the buyer obtains that information, they may share it with other entities including lenders or third-party investors.

4. How can I protect my privacy? Carefully read the application, and make sure that the company has procedures in place to protect the confidentiality of your information. If it will be sold, ask to whom and whether the end buyers will have access to your personal information. If you use a life settlement broker, find out the names of the life settlement companies from whom the broker solicits bids, and ask about the privacy policies of all parties or potential parties to the transaction. In many cases, state regulations govern the handling of confidential information. Contact your state insurance commissioner to find out what regulations apply.

5. What's the best price I can get for my policy? If you're using a life settlement broker, ask what bids were received and what steps the broker took to make sure you're being offered the most competitive price available. If you're approached by someone soliciting you to sell your life insurance policy, understand that person's role in the transaction: Are they a life settlement broker who represents you, or are they affiliated with a particular life settlement company? If the answer is the latter, the person might only obtain an offer from that company, making it hard for you to know whether you're being offered a competitive price.

6. What are the transaction costs? Life settlements can have high transaction costs, and those who sell them can receive hefty commissions. Ask how the person you're working with is being compensated for their role in the transaction—and evaluate critically whether this product is really the best option for you.

7. What if I change my mind? Some states have laws that allow you to change your mind within a certain period of time if you accept an offer and later reconsider.

8. Am I being pressured to make a fast decision? If you feel that you're being subjected to high-pressure sales tactics or other aggressive advertising, marketing and sales efforts, beware. A legitimate investment professional will provide clear answers to your questions and will give you the time you need to make an informed decision.

If you have questions or want to file a complaint about a life settlement, contact your state insurance commissioner. If your complaint concerns a variable life insurance policy, you may also file a complaint with FINRA.