

Top 8 Questions Agents Have About Life Insurance Settlements – Answered

By Lisa Rehburg

Each year, 2.5 million seniors will lapse or surrender their life insurance policies, walking away with little or nothing, because they do not know there is another option. Some of these people could be your clients – any of your clients - or the parents of your clients.

To briefly recap, a life insurance policy is an asset that can be sold.

The process of selling a life insurance policy is called a life insurance settlement, or life settlement, for short. Simply put, a life settlement is the sale of an insurance policy to a third party, typically an investor group. The buyer pays the client a lump sum of cash and takes over the ownership and premium payments of the policy. They also make themselves the beneficiary on the policy, making life settlements an investment vehicle for them.

However, even with the advertising by some buyers on TV, the life insurance settlements market is still not widely known, and there can be some misperceptions as to what it is and how it operates.

Here are the most common questions agents have about life insurance settlements:

- 1) **Why would a client sell their policy?** – Over time, the need for the policy may no longer be there. Some examples include: a spouse has passed away, the house has been paid off, the kids are on their own, a business has been sold, a client has retired, etc. Sometimes, the policy premiums start becoming a financial drain on a client's budget. Or a client may want to "repurpose" their policy to pay for long term care needs or fund retirement. Many clients think their only option is to lapse or surrender their policy, which can be a mistake. Clients could be leaving tens of thousands or hundreds of thousands of dollars on the table, by not looking at selling the policy.
- 2) **What type of policies can be sold?** – The short answer is any type of policy has the potential to be sold. Universal life policies are the most common type of policy sold, but term is a very close second, which surprises a lot of agents. Typically, term policies must still be convertible to a permanent policy in order for buyers to be interested. Convertible term policies are highly marketable, especially for clients who are younger and healthier for this market. Non-convertible term policies can still sometimes be sold, but clients do need to have health issues in order for the buyers to purchase them. Whole life, second-to-die, first-to-die and group policies are also opportunities.
- 3) **How much money can a client receive for selling their policy?** – Each client's policy and health circumstances are different and offers are specific for each client. Buyers look at three primary factors in determining how much they want to offer on a policy: 1) the policy premiums to carry the policy into the future; 2) the life expectancy of the client; and 3) the face amount of the policy. The lower the policy premiums relative to the face value of the policy, the more potential value there is for clients, because the buyer doesn't need to put as much money into the policy to keep it going. The shorter a client's life expectancy, the more money a buyer is willing to offer, because they will be able to collect the death benefit sooner. Typically, buyers are looking for clients with life expectancies of 10 – 15 years or less, sometimes 20 or even a little longer. Lastly, the face value of the policy is a factor with buyers willing to pay more for higher face value policies. In 2023, statistics show that selling a life insurance policy generated 6 times cash surrender value for clients.

- 4) **What size policies can be sold?** – Life insurance settlements are available for almost everyone. The minimum face amount is around \$100,000. Sometimes policies less than \$100,000 can be sold, depending upon the client's health. There is no maximum size of policy that can't be sold.

- 5) **Does my client have to be really sick to sell their policy?** – A client's health status is important, because as mentioned above, life expectancy is one of the key factors that the buyers consider when making an offer. But, that does not mean that clients have to be really sick to sell their policy. A client who is 80, for example, can be pretty healthy to be able to sell their policy. A client in their 50's, would need to have significant health issues in order to sell their policy. Convertible term policies can also be more marketable for clients who are younger and healthier for our market, who normally would not be able to qualify if they had a permanent policy. The market is very flexible with no stringent underwriting guidelines.

- 6) **Are life insurance settlements legal?** – Yes. In 1911, a Supreme Court decision called *Grigsby v. Russell* allowed for the basic tenet of life insurance settlements. Justice Oliver Wendell Holmes, in his statement of decision, deemed a life insurance policy an asset that could be transferred to whomever a client wishes. That makes the market go. However, nothing really happened until the market started to form in the mid-80's and became more mainstream much more recently. Not only is the life settlement transaction legal, even more important, they are highly regulated by Departments of Insurance (DOIs) across the country. The buyers must be approved to purchase policies by the DOIs of most states, the contracts include mandated language by the DOI, the contracts are approved by the DOI, and the buyers can be (and are) audited by the DOIs. Beneficiaries must also sign off, and a client's doctor must sign a letter that a client is of sound mind to complete the transaction, with an exception for a Power of Attorney if a client does not have capacity. There is a lot of compliance, for all of the right reasons.

- 7) **How do I talk about life insurance settlements?** – First, you do not have to be a life insurance expert to help your clients. Second, you do not need to be the writing agent on a client's life insurance policy to help them, so you can help any of your clients. Life insurance settlements can be a good option for any of your clients who no longer need, no longer want, or can no longer afford their policy, which can include your Medicare clients, business owners, parents or grandparents of your individual or property & casualty clients.

The key is to let your clients know that you can help them. Send an article in your newsletter. Send an email. Talk with professionals in your network such as financial advisors, CPAs and elder law attorneys, to let them know that you can help their clients and expand your client base. If you would like an article for your newsletter, an email to send to clients or your network, a blog for your website, or any other marketing material, contact me. I am happy to discuss how I can help you raise visibility for life settlements to your clients at any time.

There are buyers that are advertising on TV to get clients to call them directly – for a reason. This is good because it raises visibility for life settlements, but you want them to call you, so be sure to let your clients know that life settlements exist. In addition, buyers don't want to pay the most amount of money for a client's policy. If your client calls a buyer directly, they not only are cutting you out of the transaction, they are also probably underselling their policy.

Be sure your clients call you. Then, call us.

Marketing a client's policy with many different buyers is the role of a life settlements broker, like us. Our fiduciary duty is to your client to market the policy with many different buyers to obtain the most amount of money for a client's policy.

- 8) **What is the commission?** – The life settlements market parallels the real estate market more closely than the insurance market, because life settlements are an asset sale, like real estate. The asset just happens to be a life insurance policy. Therefore, commissions are not set in a typical insurance product schedule and are negotiable. However, there are guidelines around maximum commission, which is 1/3 of the total offer to the client or 8% of the face value of the policy, whichever is less. Operative words here are maximum and negotiable. Commissions can be adjusted to fit with whatever works for you and your client, as long as those guidelines are not exceeded. Commissions are also disclosed in the policy sale contract through a broker disclosure form, and the client has to sign that form, so they are aware of the commission.

The higher the amount of money obtained for your client, the more commission is possible, therefore benefitting not only your client, but you as well. Life settlements can be a good financial solution for clients, and another revenue opportunity for your agency.

In summary, life insurance settlements are a great way to help clients in a different way and build revenue for your agency. They are not perfect for everyone, nor should they be, but in the right circumstances, life settlements can be a much better financial option for your clients. We're here to help.



Lisa Rehburg is president of Rehburg Life Insurance Settlements, a life insurance settlements broker. Lisa is passionate about assisting financial, insurance, legal and non-profit professionals to help their clients benefit from their unwanted or unneeded life insurance policies. She has been in the health and life insurance industries for over 30 years.

Lisa has presented to hundreds of organizations, including various Financial Planning Associations, Fiduciary Associations, Estate Planning Councils, Planned Giving Roundtables, NAPFA, NAIFA and Health Underwriters Associations, to raise the visibility of life insurance settlements as an option for clients, when appropriate. She has held executive roles at carriers, general agencies and TPAs.

Lisa earned a Bachelor of Arts degree in Finance and a Master of Arts degree in Organizational Development.

714-349-7981

Lrehburg@aol.com

www.rehburglifeselements.com

Publisher's Note:

Collaboration with Subject Matter Experts directly leads to your ability to provide more solutions for your client's needs. Solving client concerns is the foundation of the role of a trusted advisor. Building on this advisor role outside of the health benefits area can be complex. Many health insurance professionals have experienced great success when they collaborate with experts in LTCi, life insurance, annuities and P&C to help their clients find solutions. When it comes to life insurance settlements, Lisa Rehburg is the subject matter expert to contact. She is professional and comes from a health insurance background, so she appreciates the work you perform to be the trusted advisor for your Group Benefits and Medicare clients.