Life settlement

A **life settlement** is a financial transaction in which the owner of a life insurance policy sells an unneeded policy to a third party for more than its cash value and less than its face value. Until recently, if a policy owner opted out of a policy by surrendering the policy or allowing it to lapse, the additional value was relinquished back to the issuing life insurance company. In some cases, an insured's health may have declined since the policy was issued and the policy may be worth considerably more than the surrender value. A life settlement is an alternative to this surrender or lapse of a policy, or when the owner of a life insurance policy no longer needs or wants the policy, the policy is underperforming or can no longer afford to pay the premiums.

Life Settlement History

Although the secondary market for life insurance is relatively new, the market was more than 100 years in the making. The life settlement market would not have originated without a number of events, judicial rulings, and key individuals.

The Policy as Transferable Property

The Supreme Court case of Grigsby v. Russell (1911) established the policy owner's right to transfer an insurance policy. Justice Oliver Wendell Holmes noted in his opinion that life insurance possessed all the ordinary characteristics of property, and therefore represented an asset that a policy owner could transfer without limitation. Wrote Holmes, "Life insurance has become in our days one of the best recognized forms of investment and self-compelled saving." This opinion placed the ownership rights in a life insurance policy on the same legal footing as more traditional investment property such as stocks and bonds. As with these other types of property, a life insurance policy could be transferred to another person at the discretion of the policy owner.

This decision established a life insurance policy as transferable property that contains specific legal rights, including the right to:

- Name the policy beneficiary
- Change the beneficiary designation (unless subject to restrictions)
- Assign the policy as collateral for a loan
- Borrow against the policy
- Sell the policy to another party

A second milestone occurred in 2001 when The National Association of Insurance Commissioners (NAIC) took a crucial step by releasing the Viatical Settlements Model Act defining guidelines for avoiding fraud and ensuring sound business practices. Around this time, many of the life settlement providers that are prominent today began purchasing policies for their investment portfolio using institutional capital.

The arrival of well-funded corporate entities transformed the settlement concept into a regulated wealth management tool for high-net-worth policy owners who no longer needed a given policy. Strong demand for life settlements policies is driving a rapid market expansion that continues today.

Providers

Life settlement providers serve as the purchaser in a life settlement transaction and are responsible for paying the client a cash sum greater than the policy's cash surrender value. The top providers in the industry fund many transactions each year and hold the seller's policy as a confidential portfolio asset. They are experienced in the analysis and valuation of large-face-amount policies and work directly with advisors to develop transactions that are customized to a client's particular situation. They have in-house compliance departments to carefully review transactions and, most importantly, they are backed by institutional funds.

Life Settlement providers must be licensed in the state where the policy owner resides. Approximately 41 states have regulations in place regarding the sale of life insurance policies to third parties.

Call Greg Gramby at 800 986 5199 to see if this strategy makes sense for you and your family.