



By Philip C. Henry, ChFS, CFS
Published in the former *South Fayette & Neighbors*
SEPTEMBER 2005

Philip C. Henry, ChFC, CFS is the President of Henry Wealth Management, LLC, an independent financial planning firm located at 1370 Washington Pike, Bridgeville, PA. He offers Securities and Investment-Advisory Services through a non-affiliated firm, NFP Securities, Inc., a Broker/Dealer, Member FINRA/SIPC, and Federally Registered Investment Advisor.

Selling Your Life Insurance

An emerging secondary market will pay you for your unwanted policy.

My friend Don is a reputable homebuilder in the South Hills. He constructs some of the finest residences in the area. Imagine after living in one of his homes for a period of time, that your needs have changed, you want to downsize or you need to move. Would you ever consider calling Don to ask him to buy back your home? On the contrary, you'd either advertise your home or get assistance from a realtor to secure the best possible offer.

Until recently, owners of unwanted life insurance coverage desiring to cancel their policies had about as many options as calling Don. If their policy contained equity, known as "cash value", they'd contact their insurer to find out what their value was, and then surrender it for that stated amount and not a penny more.

That was then...but now, your incumbent insurance carrier no longer has sole control over the disposal of your policy. You may be able to sell your policy in a secondary market for far more than its stated cash surrender value. (Ever dreamed — or had a nightmare — that you would sell life insurance?)

It's known as the life settlement process. Here's how it works.

First, envision the institutional investor, such as a bank or a pension manager. These investors seek alternative means to bolster their returns while adding diversification to their vast portfolios. Purchasing a life insurance policy on an individual who may have a less-than-normal life expectancy, or an insured person in good health but who is age 75 or older, may be a good investment.

Now imagine that you own a life insurance policy with a face amount of \$250,000, a cash surrender value of \$50,000 and an annual premium of \$2,000. For a variety of reasons, you want out. If an institutional investor offered you \$100,000 to purchase your policy, would you be interested?

Henry Wealth Management, LLC
1370 Washington Pike, Suite 403
Bridgeville, PA 15017
Phone: 412.838.0200
Fax: 412.838.0204
E-mail: Admin@HenryWealth.com
www.HenryWealth.com

How can this institution determine your life expectancy? With your consent, a life settlement consulting firm reviews your medical records to develop an estimated life expectancy. They then obtain offers from competing institutions, to obtain the highest possible one.

That's how it works, now let's ask why an insured person would be interested in disposing of what was once a valuable instrument of protection? There are many reasons this action could be warranted:

- I A safety net for beneficiaries is no longer needed due to lifetime wealth accumulation, changes in marital status, or the maturity of children.
- I The policy owner now believes he/she is over-insured.
- I The sale, dissolution or bankruptcy of business or payoff of a loan eliminates the need for a key-person policy.
- I Tax law changes may have reduced the need to subsidize estate taxes.
- I Insurance policy premiums have become unaffordable.
- I Term life insurance policy is nearing the end of its level premium period, and rates will be dramatically increasing. I A declining stock market has diminished retirement income and a cash infusion is desired.
- I A cash need exists to fund a family emergency, medical or long-term care need.

A recent study from a leading actuarial firm found that nearly 90 percent of life policies issued do not pay death benefits, but rather, are lapsed or surrendered. When these policies lapse (due to non-payment of premiums) or are surrendered for cash value, many policy owners may have been unaware that a life settlement alternative /secondary market existed.

A couple of quick guidelines: If you are as healthy as a horse, you're probably not a candidate. Institutional investors want you to expire before, not on or after, schedule. One exception is if you're age 75 or older, even if you're in good health. Also, for most life settlements, the face amount of the policy must exceed \$100,000.

So hidden in your safe deposit box or bottom drawer may be an underappreciated asset. If you find yourself needing to dispose of your policy, you now may consider the new life settlement option. If it does not yield the desired result, you always have the old option to dispose of your policy by contacting your present insurer and proceeding through the traditional means.

You are under no circumstances however, to call Don, unless of course you want to construct a fine residence!

Payments of guaranteed principal and income, as well as living and death benefit guarantees are contingent upon the claims-paying ability of the issuing company. Guarantees do not apply to the investment performance or safety of the underlying subaccounts in the variable annuity. Optional living and death benefits are available for an additional fee and may not be available in all states. Investors should consult with their own professional advisor regarding the potential tax, estate, and legal considerations that may arise in connection with entering into a life settlements transaction. Proceeds from a life settlement transaction may be taxable under federal or state law to the extent the proceeds exceed the cost basis. The proceeds from a life settlement transaction may be subject to claims of creditors. The receipt of proceeds from a life settlement transaction may adversely impact eligibility for government benefits and entitlements. The amount received for the sale of the Policy may be impacted by the circumstances of the particular purchaser of the Policy, the insured's life expectancy, future premiums, the death benefit, the terms of the Policy, and the current market for insurance policies, among other factors. The amount received for the sale of the Policy may be more or less than what others might receive for the sale of a similar policy. There may be high fees associated with the sell of a Life settlement.



Henry Wealth Management, LLC
1370 Washington Pike, Suite 403
Bridgeville, PA 15017
Phone: 412.838.0200
Fax: 412.838.0204
E-mail: Admin@HenryWealth.com
www.HenryWealth.com