

March 6, 2006

Affluent Women Over 70 Are Discovering Life Settlements

Changes in family dynamics, such as the death of a spouse or a divorce, can present a new set of challenges for senior women.

Sponsored by [Advanced Settlements, Inc.](#)

by *Marlene Frith*

Unlike the days when men were the sole "bread-winners" and women were the sole "bread-bakers," today's women of all ages are taking a more proactive role in decisions relating to insurance and their financial security. Whether placed in the decision-making role out of necessity, or through their own initiative and empowerment, senior women who are faced with identifying a solution to a challenging financial objective should discuss the creative applications of life settlements with their agent or professional advisor. For agents and advisors who believe they need to boost their knowledge base on the topic, the Internet is an excellent source of information when using the keywords "life settlements." Furthermore, life settlement brokers with longevity in the marketplace and a fully-staffed compliance department often provide white papers and other educational materials to assist agents in developing their knowledge about life settlements.



**Marlene
Frith**

Changes in family dynamics, such as the death of a spouse or a divorce, can present a new set of challenges for senior women — especially as it relates to decisions regarding in-force life insurance policies owned by either spouse.

In emotionally charged situations such as death and divorce, CPAs, insurance agents and professional advisors are often called upon for their expertise to help the widow or divorcee work through the set of options available. It is important at times such as these, that the professional advisor fully evaluate the client's complete financial picture, and make prudent recommendations to meet the client's needs as it relates to the disposition of existing life insurance policies. Those decisions may involve three alternatives — surrender, settlement, or retention.

Although life insurance is a necessary tool in the creation and protection of income and wealth, circumstances change over the years. In many cases, life insurance policies transcend the need for which they were originally purchased, and for some insureds, the premium payments have become burdensome. With the emergence of the secondary market for life insurance policies, seniors over the age of 70 have an option for policies that may be in danger of lapse or being surrendered. According to a study released by Conning Research & Consulting in January 2006 entitled: Life Settlements — The Concept Catches On, "life settlements provide a secondary market for unneeded or unwanted life policies, and a positive financial benefit to many of the insured that take advantage of them."

Consider for example the case of Jane Smith (not her real name) who was left making decisions for their estate when her 88-year-old husband passed away. Over the years, her husband had invested heavily in real estate, and at the time of his death, payments were coming due for transactions that he had financed. Because Jane and her financial advisor did not believe the timing was right to sell the real estate, they evaluated her portfolio to identify potential sources of capital to satisfy the debt. They discovered that Jane owned a \$1 million universal life insurance policy that she no longer wanted or needed. The policy had zero cash surrender value, and the premium payments were \$56,000 annually. Jane and her agent pursued a life settlement and received \$220,000 — nearly 25 percent of the policy face value. The proceeds were used to pay off the debt from her husband's real estate investments. Problem solved.

In the case of Mary Johnson (not her real name), she and her husband, age 78, decided to divorce and were forced to make a decision regarding the disposition of a \$1 million life insurance policy. The annual premiums were \$25,550, and the policy had a cash surrender value of only \$8,179. When their insurance agent suggested they explore a life settlement, the couple agreed and received \$120,000 — an amount 15 times greater than the cash surrender value. The couple decided to split the proceeds from the settlement as part of the divorce agreement.

In an industry that Conning Research estimates grew from \$2 billion in 2002 to \$5.5 billion in 2005, our research indicates that life settlements on policies for women over the age of 70 comprise approximately 30 percent of the transaction volume. As illustrated in the two case examples above, the problem-solving capacity for life settlements can run the gamut in terms of its creative applications. In 1911, the U. S. Supreme Court ruled in *Grigsby v. Russell*, that life insurance policies could be sold. As more senior women and their professional advisors begin viewing a life insurance policy as an asset that can be sold or leveraged to address a whole-host of financial objectives, we expect to see an increase in the creative uses for life settlement transactions initiated by women.

Another creative application for life settlements that both men and women over 70 are discovering is the opportunity to sell an existing policy on the secondary market and apply the proceeds toward replacement coverage. With today's relaxed underwriting, some seniors are leveraging their existing insurance asset by using the proceeds from a life settlement to achieve lower premium payments and better guarantees. If our own experience is an indication of the entire marketplace, approximately 40 percent of our life settlement transactions in 2005 involved some form of replacement coverage.

Although the recent Conning Research study states "There does not appear to be any question that life settlements are here to stay," many CPAs, insurance agents and professional advisors are either unaware of the option, or do not know enough to discuss the topic with their clients. At least one recent survey has indicated that less than 15 percent of insurance agents have done a life settlement. The primary reason cited is the lack of understanding and the need for more education.