

Selling Your Life Insurance Policy: What you should know about Life and Viatical Settlements

Selling your life insurance policy is a major financial decision. If you're considering selling your policy you should carefully evaluate the benefits involved and the alternative options available. People have been drawn into committing insurance fraud under the pretext of applying for and then immediately selling insurance policies. If you've been contacted to buy a policy and then sell it immediately, you should contact the Connecticut Insurance Department. It's possible you're being targeted to participate in insurance fraud.

The Connecticut Insurance Department, along with the National Association of Insurance Commissioners, is concerned that consumers may not fully understand the implications of selling their policies. The following information is provided as general information. Consumers are urged to contact the Connecticut Insurance Department for more specific information.

The two main categories of insurance policy sales are life settlements and viatical settlements. A life settlement differs from a viatical settlement because the insured in a life settlement is usually healthy, while a viatical settlement pertains to a sale by an insured with a terminal illness.

Life Settlements

A life settlement is the sale of a life insurance policy to a third party. The owner of the life insurance policy gets cash for the policy. The buyer becomes the new owner and/or beneficiary of the life insurance policy, pays all future premiums and collects the entire death benefit when the insured dies. Healthy people decide to sell their life insurance policies for many reasons. Some of the most common being: changes in the financial needs of dependents, a desire to eliminate or reduce premium payments, or the need for cash to meet expenses. Policies may be sold directly to a company or through a broker who works for you and "comparison shops" for life or viatical settlement offers. The buyer pays the broker a commission if the sale is completed.

Viatical Settlements

People living with a terminal illness often face very tough financial choices. Selling an insurance policy through a viatical settlement is one option that may be used to provide cash to help with current medical and living expenses. Like life settlements, viatical settlements involve the sale of a life insurance policy to a third party. In exchange for a discounted cash payment to the seller, i.e., a reduced percentage of the death benefit, the buyer becomes the new owner and/or beneficiary of the life insurance policy, pays all future premiums and collects the entire death benefit when the insured dies.

Options Other Than Selling Your Life Insurance

Two options you should always consider before selling your policy are using any policy cash value and exercising an accelerated death benefits provision (ADB). If your policy is a whole life policy, or a policy with an investment feature, you may be able to obtain a loan against its cash value to meet your immediate needs and keep your policy in force for your beneficiaries. You may also be able to use the cash value as security for a loan from a financial institution. If your policy has an accelerated death benefit provision, it could pay you a substantial portion of your policy's death benefit and you would avoid the need to sell the policy.

Connecticut Consumer Protections

Connecticut has acted to regulate viatical settlements under Connecticut General Statutes, Section 38a-465, et.seq. Viatical settlement companies and brokers must be licensed and the Insurance Commissioner must approve the contracts and forms used. Additionally, the seller of a life insurance policy has specific rights including, disclosure in writing of certain information prior to execution of the sale, confidentiality of personal information provided to buyers and the right to rescind the sale within 15 days from the receipt of the settlement proceeds.

Some Important Questions to Ask Prior to Selling Your Life Insurance Policy

Do I still need life insurance protection?

Will I qualify for a new life insurance policy in the future?

If I sell my policy, how will they decide how much cash I receive?

If my policy is group coverage, do I need my employer's permission to sell the policy?

If I sell my policy, who will be the legal owner?

Can the policy be resold?

What information will the purchasers or investors receive about my family, my health status or me?

Are the broker and company I am speaking with licensed in Connecticut?

Some Important Considerations to Understand Before Selling Your Policy

- The proceeds from the sale may not be not tax free. Contact a tax advisor and find out the tax implications.
- Be aware that your creditors may be able to claim the proceeds of the sale.
- Determine if you stand to lose public assistance or Medicaid if you receive a cash settlement.
- Understand clearly that you will be required to provide medical and personal information to the purchase of your policy.

Consumer Tips

- Understand the process involved in the sale and the phases involved.
- Decide whether to sell your policy directly to a company or to use a broker to do comparison shopping for you.
- If you do not use a broker, comparison shop yourself. Remember you do not have to accept any offer.
- Check all the application forms for accuracy, especially the information concerning your health history and status
- You must be truthful in all your answers to application questions.
- Be sure the life or viatical settlement buyer places your settlement proceeds in escrow with an independent bank to ensure the safety of the funds during the policy transfer.
- Understand that Connecticut law gives you the right to undo the sale within 15 days from your receipt of the proceeds, if you change your mind and return the proceeds and any premiums paid by the buyer.
- Be aware of the personal information you must provide and what parties will have access to it after the sale.

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