Life Settlements – Tap the Hidden Value of Your Life Insurance Policies to Pay Long Term Care Expenses

The emergence of an institutionally funded secondary market for life insurance policies has created a new source of funds for seniors that own life insurance polices that they no longer need or can afford. Unfortunately, very few seniors, or their advisors, are aware that their policies may have a value, that on average, is 300% of the surrender value offered by the issuing insurance company.

What is a life settlement?

A life settlement is the sale of a life insurance policy – an assignable asset-- where the insured is generally 65 years of age or older and does not have a terminal or chronic illness. In a life settlement transaction, the owner of the policy always receives more for the policy than the issuing insurance company will pay for the surrender of the policy.

Prior to the emergence of the life settlement market, owners of unneeded, unaffordable or underperforming policies on senior insureds had very limited options for an exit strategy. They could continue to pay premiums, surrender the policy for the value determined by the issuing insurance company, or simply allow the policy to lapse. Rarely are any of these options an attractive alternative, as the issuing insurance company sets the surrender value at pennies on the dollar. Now they have a new option, to determine the true fair market value for the asset in the secondary market.

Many types of insurance policies qualify for life settlements, even term policies with conversion privileges. Unbeknownst to many, term polices on seniors may have a cash value!

The cash proceeds from the settlement of a policy can be used for any purpose. But for seniors facing long term care expenses, the ability to discover tens, or hundreds of thousands of dollars in what was previously viewed as a dormant, and in many cases an unneeded asset, can have a significant impact on their long term care planning.

A transaction that Chesapeake Financial Settlements recently completed highlights the potential impact of this new marketplace. A son was owner and beneficiary of a $250,000 policy on his 78 year old mother who is currently in an assisted living facility.

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The son was now responsible for supplementing the cost of her care. Although he would have received nothing from the insurance company if he surrendered the policy, he was able to sell the policy and obtain $80,000 to help maintain his mother's level of care.

Seniors can have their policies appraised at no cost or risk. The process simply involves completing an application that includes authorizations that will allow the broker to request the insureds medicals records and policy information. No medical exams are required and the entire policy appraisal process usually takes 60-75 days.

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