

The Life Settlement Option: Communication to Seniors Needs to Improve

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Life insurance has evolved from providing economic safeguards for dependents and businesses to playing an important role in more complex needs such as investment, retirement funding, and estate planning. However, policyholders' needs for life insurance change over time, and continued holding of such policies may not always be suitable. Prior to the development of the life insurance secondary market (LISM), the only options available to policyholders who wanted to dispose of their life insurance policies was to surrender the policies or allow them to lapse. Today, policyholders have the new and valuable option to sell their policies in the LISM to third-party investors.

It is estimated that over 80% of seniors hold some form of life insurance, but few are aware this asset can be sold for cash. There is over \$10 trillion of life insurance in-force in the US with \$400-500 million on policyholders over age 65 and is growing. The emergence of the LISM offers seniors the ability to realize substantial value for their life insurance policies as their needs transition from life insurance to other requisites, such as annuities, long-term care funding or life insurance products with living benefits. In order for seniors to avail themselves of this powerful financial option, seniors need to be better informed about the LISM.

Milliman and Robertson, a leading

actuarial firm, has stated that 88% of all universal life policies and 85% of all term policies never result in a death claim. When applied to policies issued to seniors 65 and older, the percentages are 76% and 74%, respectively. These unfulfilled policies, which seniors surrender or allow to lapse, may be eligible for sale in the LISM.

A recent survey revealed that nearly 60% of seniors are concerned that their savings may not be enough to sustain them through retirement. The erosion of retirement benefits caused by the 2008 and 2009 market turmoil and recession makes the need for seniors to explore the benefits of the LISM more critical than in prior years. For these unfortunate seniors, selling a life insurance policy at full market value not only provides the opportunity for cash many times greater than the policy cash surrender values, but also relieves the burden of paying premiums on an unneeded or unwanted policy. This same survey reported that 50% of seniors are not aware of the benefits life settlements can provide and are deprived of that opportunity. Recent life settlement regulation in some states requires life insurance companies to notify the policyholder that a life settlement is an option to surrender and lapse. Many seniors are not prepared for today's current retirement environment and many are not informed about their options.

The current level of communication to seniors regarding the LISM needs to be improved, both in magnitude and clarity. The LISM could benefit by following the lead of the reverse mortgage industry, which, after years of slow growth, awakened millions of seniors to the substantial value in their homes that could be converted to retirement funding. This was accomplished with a proactive industry promotion program.

As the LISM continues to grow and evolve, it will receive more attention from the media, regulators and the life insurance industry. If LISM stakeholders do not effectively and accurately communicate their message to the senior public, then others will communicate messages that may add further confusion and misinformation. To avoid this, stakeholders (including agents and financial planners) need to take a more proactive approach to communicating the value of life settlements.

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