

Using a Life Settlement Along With a SPIA to Provide Lifetime Income



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I have written in past columns of the many uses of a life settlement, which is the sale of unwanted, unneeded or underperforming life insurance policies. The need for life insurance changes as insureds mature. Life settlements are an extension of the life insurance industry and offer a potential option for insureds going through these changes.

One opportunity we have not discussed is the ability for an insured to turn a life insurance policy into a stream of lifetime income. Due to the increase in life expectancy, a concern of many seniors is outliving their assets and being a financial burden on their children. Whereas retirement assets may have thought to have been sufficient, now because of lower interest rates, unstable equity markets and the possible health change of a spouse, this nest egg may no longer be sufficient.

With a life settlement, there is opportunity for the owner to sell a life insurance policy for proceeds often much greater than the Cash Surrender Value. Since 2007, our clients have received more than \$20 million in excess of the policies' Cash Surrender Value. Instead of investing these net proceeds into vehicles that are either at historically low interest rates or in an unstable stock market, a SPIA (Single Premium Immediate Annuity) can be purchased that provides for lifetime income. As the life insurance policy was needed for income replacement or to protect against early death,

SPIA

Assumptions: Female, Age 82 Life expectancy of 106 months
 Proceeds from life settlement: \$250,000

Payment Period	Lifetime Only	Period Certain	Period Certain and Lifetime Thereafter
Total Payments	Until death	106 months	106 months guaranteed; lifetime thereafter
Monthly Payment Amount	\$2,837/month	\$2,816/month	\$2,380/month
Tax Impact of Monthly Payment			
% Non-Taxable	87.4%	82.5%	75.0%
% Taxable	12.6%	17.5%	25.0%

now that same life insurance policy can fund lifetime income on a very efficient tax basis.

The chart above shows a real life example of the SPIA opportunity: A female client, age 82, with a life expectancy of 106 months, sold her \$1 million Universal Life policy and received \$250,000 of proceeds. Her financial representative suggested she purchase a SPIA, which would provide \$2,380 of income each month for a minimum of 106 months and continue to pay for lifetime if she lives past life expectancy. Of this monthly income, 75% is tax-free as it is a return of basis or principal. **A nice win for her!**

Advisors who do not offer life settlements to their senior clients are not properly representing them. Clearly, you have the fiduciary responsibility to discuss life settlements within your clients' financial plan. **FA**

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