

Women Over 70 Discover Life Settlements

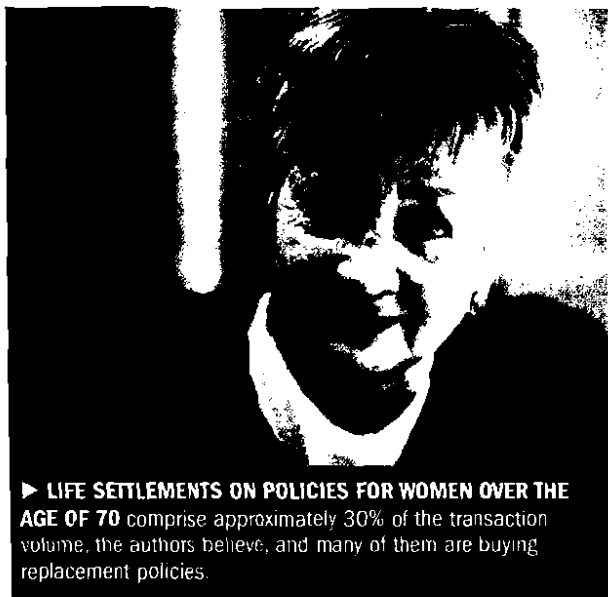
BY SEAN MCNEALY AND MARLENE FRITH

CHANGES IN FAMILY DYNAMICS, such as the death of a spouse or a divorce, may force senior women to make decisions about their family's life insurance policies.

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

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 outlast the need for which they originally were 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 can sell policies that may be in danger of lapsing or being surrendered.

Consider, for example, the case of Jane Smith (not her real name) who was left making decisions for her family estate when her 88-year-old husband passed away. Over the years, her husband had invested heavily in real estate. At the time of his death, payments were coming due



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for transactions 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% 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.

We believe life settlements on policies for women over the age of 70 comprise approximately 30% of the transaction volume. As illustrated in the two case examples above, the problem-solving capacity for life settlements can be quite versatile. 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.

One 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 mar-

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ket 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% of our life settlement transactions in 2005 involved some form of replacement coverage. ■



► Sean McNealy is co-president and Marlene Frith is marketing director for Advanced Settlements Inc., Orlando, Fla., a life settlement broker. McNealy can be

reached at sean@advancedsettlements.com. Frith can be reached at marlene@advancedsettlements.com.