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Your financial planner: Life settlements can be a lifeline for seniors



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George is a gentleman who was referred to me earlier this year with numerous health issues. He had been a very successful businessman in the past but now was facing some significant financial challenges. He had almost depleted all of the cash value in a \$500,000 Universal Life policy and had minimal other financial assets available.

George was about to let the policy lapse or surrender it and he had no knowledge there were other options.

He's is not alone; many people are unaware of something called a life settlement, which can provide much needed funds. For George a life settlement could help cover the costs of his long-term care.

“What is a life settlement?” I have been asked that question many times over the last year. A life settlement is a practical alternative to surrendering a life insurance policy or allowing it to lapse. It is created when the policy-owner sells a policy to a third party for more than its cash surrender value but less than the death benefit. Many American seniors—typically those 70 years of age or older or with a significant health issue—are discovering that life insurance policies, that were once much needed, no longer serve the original purpose. Rather than continuing to pay premiums on the policy, a life settlement offers seniors payoffs that can be significantly greater than surrendering a policy.

Life insurance is an asset, like real estate, that has a market value based on supply and demand. If you no longer needed your home, you could sell it on the open market for a fair price to a qualified buyer. It is the same with a life insurance policy. When a policy is sold, it is characterized as the secondary market. Over the past ten years, the market for life insurance policies has grown with significant cash from large institutional buyers providing people like George with a compelling alternative option.

Selling a life insurance policy makes sense in many of life's circumstances, not just George's need to fund his long-term care. Many seniors need to reduce or eliminate future life insurance premiums or create more financial security during retirement. A business may change hands and no longer need key-man or buy/sell insurance. Finally, a church may choose to sell a policy donated to them in order to accelerate cash benefits of t

nce. Life insurance e taxes ensuring that beneficiaries would not be burdened with a large tax bill. However, in late 2010, congress increased the applicable exclusion amount to \$5,000,000 for estates of decedents passing away on or after December 31, 2009. This amount is currently \$5,430,000 per individual as adjusted for inflation. A life settlement can provide a solution in the case of unneeded insurance.

The following is an example of a life settlement transaction. A 77 year-old gentleman needed additional cash to fund his retirement and health care costs. He had a \$750,000 universal life policy with a \$12,000 cash surrender value. When turning to the secondary market, he received a cash offer for \$175,000.

A life settlement is not a solution for everyone. There was a reason that a policy was purchased and in many cases that insurance protection continues to be necessary. A senior should consult with his or her certified financial planner, other trusted advisers, and beneficiaries to determine if this is an alternative to pursue.

According to a recent Life Insurance Settlement Association newsletter, “demographic trends are favorable for life settlements as millions of Baby Boomers have now entered their retirement years. The key to the future is to raise awareness among seniors and their financial advisors of the existence of the life settlement option as an alternative to lapsing or surrendering a life insurance policy.”

Many trusted advisors know individuals like George. It is definitely worth taking the time to research and explore alternatives. A life settlement can be a lifeline for seniors.

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