

LIFE SETTLEMENTS AND REAL ESTATE MORE SIMILAR THAN YOU THINK

BY LISA REHBURG

Does your house always fit your needs during your entire lifetime? Sometimes, yes, but most of the time, no. Perhaps over your lifetime, your house may become too small or too big, too far away from family, too far away from the office, etc. When your house no longer suits your needs, you sell it, right? In a similar fashion, the same can be true of a life insurance policy.

Over time, our life insurance needs may change, making policies no longer needed, wanted or affordable. Maybe a spouse has passed away, the house is now paid off, a business or key asset has been sold, a term policy may be coming to the end of the term, or a policy that was purchased decades ago no longer has enough cash in it to sustain the premiums. These are some common reasons why clients may not need their policies. The Insurance Studies Institute estimates that 500,000 seniors a year lapse their life insurance policies, leaving over \$100 billion in benefits behind. But, there is another option to lapsing or surrendering a life insurance policy—a life insurance settlement.

Real estate transactions and life insurance settlements sound so different, don't they? But they are really quite similar. Here's how...life insurance policies and real estate both:

1) are assets: Everyone understands their house is an asset, but a life insurance policy? Yes. In 1911, a Supreme Court decision, *Grigsby v. Russell*, defined a life insurance

policy as an asset. Justice Oliver Wendell Holmes said in his statement of decision, "it is desirable to give to life policies the ordinary characteristics of property...to deny the right to sell except to persons having such an interest is to diminish appreciable the value of the contract in the owner's hands". The result? A life insurance policy can be transferred to anyone the owner wishes, just like a client can transfer their home to whomever they wish.

2) can be sold: Because a life insurance policy is deemed an asset that can be transferred to whomever a client wishes, it can be sold, just like a house. The process of selling a life insurance policy is called a life insurance settlement, or a life settlement for short. A life settlement is simply the sale of a client's life insurance policy to a third party, usually an investor group. The client receives a lump sum of cash today. In exchange, the buyer becomes the new owner of the policy, the new payor of the premium, and collects the death benefit when the client passes away. Like a buyer of a house purchases the house that fits their needs, so investors purchase policies that fit their needs, to increase the performance of their portfolios and to diversify their holdings from market fluctuations.

3) have a fair market value: When you want to sell your house, do you call your mortgage company and ask them what they will give you for it? Of course not. In a similar

This article's goal is to demystify life settlements by drawing similarities to a market with which you and your client are already familiar: real estate.

way, when a client calls their insurance company to surrender a policy, that is essentially what they are doing. But, your home has a fair market value in the marketplace, and so does a life insurance policy. Studies show that selling a life insurance policy through a life settlement can generate 3 to 5 times the cash surrender value of the policy. Even term policies can be sold.

4) can be marketed directly or through a broker: When you sell your house, you have the option of marketing your home to buyers directly, or using a real estate agent. When you market your own home, you do save commission, but you have to do all of the work, and, more importantly, how do you know if the offer received is the best one in the market? The vast majority of people enlist an experienced real estate agent who knows the marketplace, how to present a home in the best fashion, and how to market the home to obtain the best value. In exchange for these services, a real estate agent usually realizes a commission when the home is sold. The same is true of life settlements. Clients always have the option of going directly to investor groups, to avoid commission. But, how do clients know if they received a fair offer for their policy? Investors, understandably, are trying to obtain a policy for the least amount of capital expended. A life settlements broker is very similar to a real estate agent in that they represent the client, know the market, know all the different investor groups, the types of policies investors are looking for, and can market the policy to many investor groups to obtain the best value for the client's policy. A commission is paid only when the policy is sold.

5) have similar sales time frames: from engaging a real estate agent to the close of the sale when the client receives their funds, is usually a multiple month process. Similarly, from the time a life settlement application is received, to the time the client receives their funds, the time frame is usually 3 to 5 months, in order to properly obtain information and market the policy.

6) go into escrow: escrow is opened in both life settlements and real estate once an offer is received and accepted. In both instances, escrow protects the client during the process of changing ownership.

7) have consumer protections: like real estate, there are state-mandated disclosures that clients must sign, to make sure clients understand all aspects of life settlements. The transaction is very transparent, including the sign-off of all beneficiaries and commission disclosure. The investor groups themselves go through an extensive registration process with each state in which they do business and many states require they post bonds. Many states also mandate that investors annually file the details of the policies that have been purchased. Life settlement brokers also need special licensing.

This article's goal is to demystify life settlements by drawing similarities to a market with which you and your client are already familiar: real estate. Hopefully, this makes it easier to explain the process to your clients, when a life insurance settlement is the right option for them.

To be clear, not all life insurance policies can be sold, but if you and your client have looked at all alternatives, and the decision has been made to lapse or surrender a policy, a life insurance settlement can be of greater value for both you and your client. Life settlements create "found money" for the client from an asset they didn't know they had, and create a revenue opportunity for you, their broker.



Lisa Rehburg is president of Rehburg Life Insurance Settlements, a life settlements broker. Rehburg is energized by helping brokers and their clients benefit from unwanted, unneeded or unaffordable life insurance policies. By having access to many investor groups, Rehburg Life Insurance Settlements can place more policies and maximize the return for clients' policies.

Rehburg has been working with brokers in the health and life insurance industries for over 30 years. She can be reached at (714) 349-7981, lrehburg@aol.com or www.rehburglifesettlements.com.