

They Bet on Your Life

pages 89-90 | *YOUR MONEY* KIPLINGER'S | DECEMBER 2004

INSURANCE | Selling your life-insurance policy to an utter stranger can pay off. *By Mary Beth Franklin*

When the high-tech industry imploded in 2001, so did Richard Lowry's consulting business. By 2002, his company, which designed custom computer chips, had gone bust, and Lowry could no longer afford thousands of dollars in annual premiums on two million-dollar life-insurance policies he had taken out to protect his family and company.

When he informed his agent that he planned to let the two term-insurance policies lapse, Lowry, 56, got some surprisingly good news: Rather than dropping the policies (which had no cash surrender value), he could sell them to an investor who would take over the payments and collect the benefits when Lowry dies. In return for the transaction, known as a life settlement, Lowry collected \$280,000.

"If someone wants to give me a lot of money for something that is worthless to me, I don't see a downside," says the Orlando entrepreneur-turned-author. Lowry used some of the cash to replace lost income, which allowed him to pursue his passion for military history and write his first book, *The Gulf War Chronicles*. Lowry and his wife, Vickye, also used the money to pay college-tuition bills for their three sons.

A lively market. The idea of reselling life-insurance policies is gaining in popularity, particularly among older policyholders who may no longer need the insurance or who can't pay the premiums. Some people use the money to buy cheaper life insurance or long-term-care insurance.

Life settlements are an offshoot of viatical settlements, which were created in the 1980s to buy life-insurance policies from terminally ill AIDS patients. But as medical breakthroughs extended the lives of AIDS patients, investors who had been betting on their early demise saw their potential profits disappear.

Unlike viaticals, life settlements involve policyholders with life expectancies of up to 12 years. Although most candidates are at least 65 years old, Lowry qualified because he had a history of heart disease and had had triple-bypass surgery. "I plan to live quite a bit longer," says Lowry, who hopes to beat the odds and outlive his abbreviated life expectancy. He has a life-insurance policy still in force that will pay benefits to his family at his death.

Cashing out. The size of a life settlement turns on several factors, including the policyholder's life expectancy, the face value of the policy (a minimum of \$250,000 is usually required) and the premium an investor will have to pay to keep the policy in force, says W. Scott Page, president and chief executive officer of Lifeline Program, a life-settlement provider based in Fort Lauderdale, Fla. Unlike viatical settlements, which link individual investors with terminally ill policyholders, large institutional investors looking for higher returns than those available in the bond markets are fueling the demand for life settlements. In 2003, sales reached more than \$4 billion.

Doug Head, executive director of the Viatical and Life Settlement Association, in Orlando, says a typical life settlement yields about three times the policy's cash value, which is the amount the policyholder would get if he simply cashed it in. Term policies, which have no cash value, are also eligible for life settlements if they are renewable or convertible to cash-value policies.

"As long as you are not worried about your heirs and you plan to let your policy lapse anyway, you might as well find out what it is worth," Head says. The association's Web site, www.viatical.org, includes a list of life-settlement brokers who will screen a policy for eligibility.

"Because it's a new industry, there can be a vast difference in life-settlement figures from one broker to another," warns Norman Hood, an independent broker in Rushville, Ill. Hood, who has sold insurance for more than 30 years and arranged more than 100 life settlements, says that most of his referrals come from lawyers, accountants and financial planners. He is developing a Web site--www.policysettlement.com, which should be launched by year-end--to help potential clients and advisers learn about life settlements and shop the market.

Although a life-insurance death benefit is tax-free, a life settlement is taxable to the extent that it exceeds the total premiums you've paid on the policy. Last summer, the National Association of Insurance Commissioners decided that any licensed life-insurance agent could broker a life settlement, rejecting the industry's proposal for special training and licensing requirements. The decision is expected to further accelerate life-settlement transactions. ■■

--Research: **ELIZABETH KOUNTZE**