LISA
Life Insurance
Settlement Association

LISA Fact Sheet for "Media" Audience

Facts About Life Settlements:

- A life settlement is the sale of a person's life insurance policy to a third-party institutional investor. In a life settlement, the policy's owner transfers ownership of the policy in exchange for an immediate cash payment.

- Candidates for life settlements are typically 70 or older, with a life insurance policy that has a "face value" (death benefit) of more than $100,000. However, some consumers with policies that have death benefits of less than $100,000 may still have some potential options. A settlement is only possible when the policy's face value exceeds the cash surrender value.

- There are a variety of life circumstances that may cause a senior to be interested in exploring the life settlement option, such as the following:
  * The life insurance policy is no longer needed or wanted
  * Premium payments have become unaffordable
  * Considering surrender or lapse of the policy
  * Change in estate planning needs
  * Change in financial circumstances
  * Changes in life circumstances (such as divorce or sale of a business)

- On average, policy sellers receive anywhere from four to seven times the amount of the policy's current cash surrender value. The amount will always be more than the cash surrender value but less than the death benefit on the policy.

Facts About Life Settlement Industry:

- The legal basis for life settlements may be found in the *Grigsby v. Russell* decision from the U.S. Supreme Court in 1911, where it ruled that life insurance is just like any other private property you own and can therefore be sold.

- According to a 2010 U.S. Government Accountability Office (U.S. GAO) study, U.S. policy owners received $5.62 billion more than the policy cash surrender values from life settlements from 2006-2009.

- According to a 2014 report from Conning & Co., an independent analyst firm, there are "in-force U.S. life settlements" right now on life insurance policies with a combined face value of approximately $35 billion.

- Conning & Co. projects that the annual volume of life settlement transactions will average approximately $3 billion per year over the next decade.

- LISA research shows that Americans who are aged 65 or older leave approximately $112 billion in benefits on the table each year by lapsing or surrendering their life insurance policies. A life settlement is one option for capturing some of those benefits rather than forfeiting them back to the insurance companies.

Facts About Consumer Protection:

- As of 2015, 42 states regulate life settlements, affording approximately 90% of the United States population protection under comprehensive life settlement laws and regulations.

- 29 states have a statutorily mandated two-year waiting period before one can sell their life insurance policy, while 10 states have five-year waiting periods and one state has a four-year waiting period. Most states have provisions within their life settlement acts where one can sell their policy before the waiting period if they meet certain criteria (i.e. owner/insured is terminally or chronically ill, divorce, retirement, physical or mental disability, etc.).

- Six states -- Kentucky, Maine, New Hampshire, Oregon, Washington and Wisconsin -- have now passed various versions of a life insurance disclosure requirement, legally mandating that insurance carriers notify seniors in certain circumstances of the alternatives to lapse or surrender of their policy (e.g., accelerated death benefit or available riders, assignment of policy as a gift, life settlement, policy replacement, etc.). This "seniors' right to know" movement is growing.

- Interestingly, studies show that nearly 90% of seniors who lapsed or surrendered their policies back to insurance carriers would have considered selling the policy if they were aware that possibility existed.

Facts About Life Settlement Transactions:

- Most life settlement transactions take from four to five months to complete.

- There are four main components determining the amount consumers will obtain from a life settlement: (1) The age and medical condition of the insured; (2) Type of life insurance policy (e.g., universal life, whole life, term); (3) Amount of the death benefit; and (4) Amount of premiums necessary to keep the policy in force. Naturally, the largest settlements will be offered for a higher death benefit, a lower premium and a shorter life expectancy.

- A recent study on life settlements reported that the average life settlement transaction is for 20 percent of the life insurance policy face value, as compared to the average cash surrender value paid out by insurance companies of only 10 percent of the policy's face value.

- By selling a life insurance policy through a "secondary market" to another party, seniors can benefit from their life insurance today and use that cash for their immediate needs.

- The primary downside to a life settlement is that once a consumer transfers ownership of a life insurance policy, his/her beneficiaries no longer have any rights to the death benefit when the insured person passes away (although some life settlement professionals may be able to obtain a settlement that allows the consumer to retain some of the death benefit from the policy). Also, depending on the consumer's individual situation, there may be tax consequences to a life settlement transaction.

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For More Information:

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