

Your Guide to Common Life Settlement Questions



Why is it important to be knowledgeable about Life Settlements?

Simply put, as client's needs change over time, an advisor needs tools in the toolbox to address these changes with relevant solutions. By far, the most common reason a policy owner sells a life insurance policy is due to a change in circumstance such that the original purpose for the life insurance is no longer relevant, or the policy owner's financial priorities have changed.

A life settlement is one of several options a policy owner has when their life insurance policy is no longer needed or wanted. Several states actually require insurance carriers to notify the policy owner of the life settlement option when inquiring about lapsing or surrendering a policy. It is always appropriate to advise clients of their options when making important financial decisions.

When should a client consider a life settlement?

There are often specific circumstances that lead policy owners to consider their need for a life insurance policy. While individual's reasons differ widely, these are some common scenarios:

- **Premiums costs have increased**, causing the policy owner to reconsider their need for coverage;
- The client would like to **reduce expenses** or direct funds to address other financial priorities;
- The **reason the policy was first purchased** has changed or no longer exists (e.g., children are grown and financially stable);
- **Unexpected illness** leads to reassessment of personal priorities (e.g., reviewing the "bucket list");
- **Life changes**, such as retirement, sale of a business or loss of a spouse, and related changes to a financial plan cause the policy owner to revisit their need for coverage.

What are the different ways you can assist a client with understanding the life settlement option? There are many different roles you can play as an advisor. Your involvement can vary based on your relationship with the client and the extent of your participation in the life settlement process. Advisors can simply provide basic information about the option of a life settlement, or they may refer the client to a life settlement professional who provides services directly to policy owners.

Many advisors choose to be actively involved in the process and work with other life settlement professionals to complete a transaction. Advisors may be eligible to receive a referral fee or commission at the completion of the policy sale depending on the state regulations.

What are the key steps in the life settlement process?

There are several steps required to complete the sale of a life insurance policy. The steps in the life settlement process are:

- 1. Applications/Qualification:** The process begins with the policy owner and insured granting permission to gather information to evaluate the policy. For the owner, this means a request for information from their life insurance company concerning the premiums and benefits provided by your policy. For the insured, giving permission to request medical records for underwriting is required. At this time, the owner and insured may receive additional information and disclosures.
- 2. Information Gathering:** Once the owner and insured have granted permission, information will be gathered from the insurance company and from the insured's health care providers. Once the medical records are received, they are reviewed by specialist underwriting companies.
- 3. Appraisal/Valuation:** All of the information about the policy and the insured are evaluated to determine the current market value of the policy. Each policy and insured combination are unique, so each policy must be considered individually.
- 4. Offers to Purchase:** Keep in mind that any offer to purchase consists of both the amount of money the buyer is willing to pay and any terms they may propose to complete the transaction. Terms include timing, and other conditions that may need to be confirmed before the sale is completed.

Are there licensing requirements?

Life Settlements are regulated at the state level and licensing requirements vary by state. If an advisor is acting as a broker and will receive a compensation for a transaction, 45 states require them to be licensed to conduct these activities. The policy owner's state of domicile determines which state's regulations govern the transaction. Individual state requirements range from filing fees and registration under a simple line of authority to stand-alone licensure and continuing education requirements.

Are agents compensated?

Advisors may be eligible to receive a referral fee or commission at the completion of the policy sale depending on the state regulations.

What are the typical disclosures with which I should expect to be provided during the transaction process?

Each state's regulations specify the disclosures licensed brokers and providers must make to a consumer who sells a policy. For more information or to contact your state's regulator about this issue please refer to the [NAIC state insurance departments page](#).

How long does the life settlement process take?

There are many different forces that can influence the time it takes to complete a life settlement. Life insurance companies can take as many as 4 weeks to respond to requests for policy information. Medical records collection times vary widely among health care providers, but on average it can take 2-4 weeks and sometimes longer to gather all of an insured's medical information.

Medical underwriting and application processing can take 3 to 4 weeks. Once the policy owner accepts an offer, contracting and due diligence takes approximately 2 to 4 weeks. To change the ownership and beneficiary designations on a policy can take a life insurance company days to weeks as well. However, some of these processes occur simultaneously. Overall, a life settlement can take 60 to 120 days in total to complete from start to finish, depending how quickly third-parties (primarily insurance companies and medical records providers) respond to requests.

The items most impactful to this timeframe are the processing times at the life insurance company, the order processing times at the various health care providers, and the speed with which the insured and policy owner response to requests for additional information, if necessary.

What are the benefits of working with members of the Life Insurance Settlement Association?

For more than two decades, LISA — the oldest and largest trade organization in the life settlement market — has brought consumers around the world education and access to market participants who can facilitate the sale of a life insurance policy, translating to billions of dollars in additional value. LISA was established in 1994 and has played a key role in developing legislation and regulations as the foundation for an open, transparent and competitive market for the transaction of life settlements.

LISA members are held to the highest ethical standards in business practices. They also pledge to improve public information and awareness, leading to a healthy industry, strong individual businesses and better service to consumers. All members are subject to a rigorous vetting process prior to acceptance. LISA members must review and accept both the LISA Bylaws and the LISA Code of Ethics.

How is a life settlement different from a viatical settlement?

A viatical settlement is a contractual agreement to provide a life insurance policy holder with immediate cash in exchange for the sale and transfer of life insurance policy ownership rights.

A life settlement is different from a viatical settlement in that the individual insured on the policy has a longer life expectancy. In a viatical settlement, the life expectancy of the insured is generally 24 months or less.

Consumer tips:

- Some states do not distinguish the difference in terminology of a life settlement and viatical settlement. It is always best to speak with a member of the Life Insurance Settlement Association to understand how regulation, tax laws and how the transaction requirements differ from state to state.
- It's important for consumers to understand the differences between viatical settlements and accelerated death benefits.

How long have these transactions been legally recognized?

For over a 100 years. Life insurance has been a core part of personal financial planning since the 1800s, but many financial advisors and other professionals in the industry are unaware that a senior's life insurance policy is personal property in every legal sense. The legal basis for life settlements as a legitimate option for life insurance owners 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.

What types of policies qualify?

All policy types, including term, whole life, and universal life may qualify. Some purchasers will also consider group life and Federal Employee Group Life Insurance (FEGLI). Commonly, policies with death benefits of \$100,000 or more may qualify, although some purchasers may consider smaller policies.

What are Accelerated Death Benefits?

Accelerated death benefits are paid by an insurance company on an existing policy. It is an insurance policy provision that lets you collect part of your death benefit before you die. If you have a terminal illness, the policy advances you a specified part of your death benefit to pay medical bills or other expenses, then the amount is subtracted from the death benefit your beneficiary receives.

Consumer Tips:

- While some older policies may not grant an accelerated death benefit in the terms of the life insurance contract, many insurance companies are making this option available to their policyholders. You should check with your insurance agent or company to find out if this option is available.
- If you accept an accelerated death benefit payment, you may become ineligible for Medicaid or other governmental benefits and the benefits may be taxable. You should consult with your tax and/or legal advisor to determine whether or not this may be the case in your individual situation prior to entering into any financial agreement.

Who invests in life settlements?

Life settlements are considered a fixed income alternative and are an attractive asset class to institutional investors seeking long term investments. Funds specializing in alternative investments, pension plans, banks, insurance companies and private equity firms are examples of the types of investors involved in the life settlement market.

The sale of proportional interests in the benefits of a single life insurance policy, known as “fractionalization,” is not an appropriate investment for most investors, particularly individual investors. These schemes involve unique, complex, and difficult to manage risks that are not easily understood by most investors. See [LISA’s statement on fractionalized interests](#).

Are life settlement proceeds taxed?

There are potential tax implications related to the sale of a life insurance policy. [IRS Revenue Ruling 2009-13-15](#) explains the possible tax consequences of selling a life insurance policy as a life settlement. Most recently, [Internal Revenue Bulletin 2020-05](#) provided additional guidance on provisions within the 2009-13-15 Ruling. In all cases, the seller of a life insurance policy will receive a 1099-LS after selling a life insurance policy. Anyone selling a policy should consult with a tax professional to ascertain the specific ramifications that apply to them when selling their policy.

If you have additional questions or would like to speak to an expert, please [reach out to a LISA member](#) for more information and [visit our blog](#) for additional content.