

## **How to Profit from Life Settlement Plans**

One of my subscribers, a 75-year-old retired attorney from the Midwest, owned a universal life insurance policy with a death benefit of \$7,500,000. Two years after purchasing the policy, the subscriber decided he no longer wanted it. He contacted the insurance company and was told his policy was worth \$116,000 if he surrendered it to them. He then read an article in the New York Times describing how seniors are now selling their life insurance policies to Wall Street investors for large profits because they figure they might not need so much life insurance. After looking into this option more closely, the subscriber was able to sell his policy for \$875,000. Naturally, this profit eclipsed what he would have received had he surrendered the policy to the insurance company for the \$116,000 cash surrender value.

The emerging market place called Life Settlement recently has been featured in publications such as the New York Times, Wall Street Journal and BusinessWeek. That market place is changing the way many seniors will think about their unwanted life insurance policies. Life Settlements is a rapidly growing sector in the financial markets and many of the large Wall Street firms are rushing to capitalize on this asset class, particularly with mortgage-backed securities being so volatile. As reported in BusinessWeek (July 30, 2007), industry analysts estimate that the life settlement market currently is a \$30 billion industry and is expected to exceed \$160 billion annually by the year 2030. The investors who buy life settlements are some of the world's largest investment firms, including Deutsche Bank, Credit Suisse, Cantor Fitzgerald, Berkshire Hathaway, Merrill Lynch and many more. (They continue to make the payments on the policy, so that when you die, the investment firm gets the proceeds.)

Another interesting development arising out of the Life Settlement market place is the developing trend of healthy seniors (ages 65-90) who are buying newly issued life insurance policies, holding the policies for a few years, and then selling them to the Wall Street investors for a hefty profit. Seniors are even buying these policies and using their home equity lines of credit for the premiums while they wait to sell their policies. In some cases, seniors are using reverse mortgages to raise the funds to buy these policies and then reselling the policies in later years.

How did this life settlement practice develop? Historically, life insurance companies have made big profits when seniors turned in their policies for the cash values, or allowed the policies to lapse, because they no longer needed the benefit or could afford the coverage. The investment community quickly realized that offering seniors a fair price to buy their policies — a price greater than the cash value the seniors would otherwise receive if they surrendered their policies — would be a “win-win” for the investor and the senior.

The investor understands that the purchase of a life insurance policy on a senior has limited risk, considering that the death of the insured and the payment of the death benefit are “guaranteed.”



The only risk factor to the investor is the time value of money. The insurance carriers are not very happy with the emergence of the life settlement marketplace because they count on profiting from a certain number of policies being surrendered or lapsing. Yet there isn't much the insurance carriers can do about it. Some states have passed legislation codifying what has always been the law — namely, that a life insurance policy may only be purchased by someone who has an “insurable interest” in the insured. However, once the policy is issued, the owner of the policy may sell it to anyone, just like any other item of “personal property.” Any attempt to restrict who may buy already-issued life insurance policies in the secondary market would be an unreasonable restraint on property rights and be unconstitutional. As is generally the case where there are large profits to be made, people will attempt to “cheat” the system. If you are approached by an “advisor” who offers “up front” money to buy your policy before it is even issued, refuse the offer, because this type of “plan” is clearly illegal. No one can buy — or pre-arrange to buy from you — a life insurance policy on your life unless they have an “insurable interest” in you.

My long-time friend, a tax and asset protection lawyer, Jeffrey Verdon, Esq., first brought life settlements to my attention. Jeffrey reports that many of his senior clients are buying life insurance policies and then donating the profits to worthy charitable causes. If you have any questions on this subject or believe you might qualify to take advantage of this program, call and speak to Jeffrey at his law firm: 1-800/521-0464. [jeff@jmvlaw.com](mailto:jeff@jmvlaw.com)  
[www.jmvlaw.com](http://www.jmvlaw.com).

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