



## Life's Value Falls as Seniors Sell Insurance Policies (Update1)

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By Jason M. Breslow

March 26 (Bloomberg) -- Retirees seeking extra cash last year could sell a \$5 million life insurance policy to investors for \$1 million. Today, the price is as low as \$600,000.

Sales of so-called life settlements declined 20 percent in the second half of 2008 as the credit crunch slowed demand, according to a report from **Life Policy Dynamics LLC**, a Washington-based consultant. U.S. life insurance policies worth approximately \$12 billion were sold in 2008.

"You've now got more people who would be willing to consider selling than you have buyers," according to life settlement experts such as Scott Hawkins, an analyst at the Hartford-based asset management firm **Conning & Co.**

Retirees whose investment portfolios were pummeled by the 38 percent decline in the **Standard & Poor's 500 Index** last year are increasingly trying to sell their policies, said **Brian Pardo**, chairman and chief executive officer of **Life Partners Holdings Inc.**, a life settlement broker. About 360 more people each month are approaching the Waco, Texas-based company about a policy sale, Pardo said.

Senior citizens "are really seriously in financial trouble" with no real way to raise cash besides selling assets that they may not want to part with "at garage-sale prices," Pardo said. "We don't have enough investment capital to buy all of that."

Pardo's company, Life Partners, was the best performer in the 53-stock **Nasdaq Insurance Index** in 2008. This year, Life Partners has declined 54 percent.

### Policy Sold

In a life settlement, the policy is sold to an investor who pays the premiums until the seller's death. The investor then collects the proceeds. Companies that broker life settlements include **Credit Suisse Group AG**, based in Zurich, Frankfurt-based **Deutsche Bank AG**, and San Francisco-based **Wells Fargo & Co.**

A year ago, a policy worth \$10 million or more held by a 65-year-old with a life expectancy of as much as 200 months could easily be sold, said Robert Stark, president of the New York-based life-settlement broker **Melville Capital**. Investors now are seeking policies with a face value of \$2 million or less from someone 70 or older with a life expectancy below 120 months. Fees generally are 15 percent of the selling price, said **Doug Head**, executive director of the **Life Insurance Settlement Association** in Orlando, Florida.

Shorter policies from older individuals mean higher returns for investors, said Head. A year ago investors sought returns of about 11 percent. "Today I think people are looking for five points above that and are getting it," according to Head.

### Insurance Funds

Some policies are pooled into life settlement funds, such as the Life Settlement Strategy Fund at **Centurion Fund Managers**. The fund offers annual returns between 6.5 percent and 10 percent, according to the London-based company. Another, the Omega Life Settlement Fund from Rancho Santa Fe, California- based **BCAJ Investments West, Inc.** has an annual return between 12 percent and 15 percent, according to BCAJ.

Life-settlement returns are based on life expectancy tables, which were adjusted between 20 percent and 30 percent higher within the past year by several underwriters, including Minneapolis-based **21st Services LLC**, Scottsdale, Arizona-based Examination Management Services Inc., and Kennesaw, Georgia-based **AVS Underwriting LLC**.

The new tables can dramatically change the value of a policy, said James Slazas, president of **Global Life Underwriting LLC** in Torrance, California. "You're going to have additional premium payments that are ongoing over a longer time period so your return on your investment is going to be lower," Slazas said.

#### Surrender Value

Those unable to sell a whole life policy in the secondary market may be able to surrender it for cash to the life insurance company. The surrender value can be as much as 80 percent less than a life settlement, according to Head. Term life policies generally cannot be surrendered.

There is "probably not a whole lot of difference" between what can be made in a life settlement versus the cash surrender value, said J. Bruce Ferguson, senior vice president for state relations at the **American Council of Life Insurers** in Washington, who cautioned against either course.

"We think in the long run people are better off keeping their policies or finding ways to keep their policies so that their beneficiaries, or their estates, can get the maximum value of the coverage that they purchased," Ferguson said.

Selling a policy may have drawbacks. Policy sales are taxable as ordinary income when the amount of the policy's cash value exceeds any premiums that have been paid. The Internal Revenue Service has yet to rule on whether any settlement money received in excess of the cash value is a capital gain, so experts suggest advising with a tax professional.

#### Insurers Wary

Some insurers may be wary of selling in the future to anyone who has participated in a life settlement, Ferguson said.

In 2007 television host **Larry King** filed a federal lawsuit alleging he sold two insurance policies totaling \$15 million for \$1.4 million. King said he was steered into selling, which ultimately hurt his "future uninsurability." The case was settled out of court.

Slazas calls this the biggest "downside risk" to a life settlement. Still, many seniors laugh at him when he warns them, he said.

"They're like, don't worry, I don't think I'll be buying more life insurance when I'm 86."

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