

## **QUESTIONS TO ASK ABOUT LIFE SETTLEMENTS**

Do you own a life insurance policy that you no longer need? If so, there are a number of options available to you, including surrendering the policy to receive the cash value or letting it lapse. Another option is a life settlement, in which you sell the policy to an investor. Life settlements have become a \$12 billion industry, but the New Hampshire Society of CPAs warns that there are a few questions you should ask before you sign up.

### **What is a Life Settlement?**

Life settlements generally allow you to sell your policy for an amount that is more than the cash value but less than the death benefit. There is no minimum age requirement, but most companies look for a policy holder who is at least 65 or 70. Life settlements can be one good way to generate cash if you need it or can't afford to keep up policy payments. As part of the transaction, the buyer continues to make your premium payments until you die, then collects the death benefit. The lump sum you receive depends on a number of factors, including your age and health.

### **What are My Other Options?**

If you need cash, you should also look into borrowing against your existing policy. If you are suffering from a serious, long-term or terminal illness, ask your insurance company about an accelerated death benefit, which makes it possible to get payments during your lifetime.

### **How do I get the Best Price?**

There is no strict formula for pricing a life settlement, which means that it can be hard to know when you're getting a good offer. That's why it's smart to get quotes from as many as four life

settlement companies so you can find the best deal. You can do this by working directly with the companies or by using a broker to handle the process for you.

### **Are There Consequences to My Financial Situation?**

Once you sell your policy, your beneficiaries will not receive the death benefit when you die.

This may be less of a concern if, for example, you originally bought the policy to benefit a spouse who has predeceased you. Receiving a large lump sum from the life settlement company may disqualify you from Medicaid or other kinds of federal or public assistance. And it is likely that some or all of your lump sum will be taxable, too.

Also, because the policy remains in effect (even though you are no longer the owner), it counts against your insurance capacity (that is, the total amount of insurance that you can purchase). So if you still need insurance coverage, selling your policy to a life settlement company may limit the amount of additional coverage you can buy.

### **What are the Downsides?**

There are many precautions to take before agreeing to a life settlement. First, check with your state insurance commissioner to see if the life settlement company and any broker you are using are correctly licensed. In addition, you will typically have to allow the life settlement company access to medical and other personal information, so the organization should have adequate privacy protection procedures. Finally, these arrangements often carry high transaction costs that can eat away at your final payout. The best advice: Read the company information carefully and ask questions to ensure the deal is a good one for you.

### **Consult Your Local CPA**

Don't feel pressured to accept any offer, especially if the broker or company representative is urging you to do so. Get the facts first and make your best decision in your own time. And if you need help making a decision on life settlements or any other financial issues facing your family, be sure to turn to your local CPA. He or she can advise you on the smartest solution for your situation.

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