Seniors who need cash in the midst of the recession may want to consider selling their life insurance policies, some financial advisors say.

"Your life insurance policy could be your financial lifesaver," said Susan Bruno of Beacon Wealth in Connecticut. Bruno, a certified financial planner and accountant, wrote about the sales, called life settlements, for the Journal of Accountancy earlier this year.

The idea isn't new, but the strategy could be particularly useful now, when policy holders may find paying insurance premiums are an expense they can't afford or that they don't have any other financial resources that can easily be turned into cash.

The popularity of life settlements has been growing since before the recession. According to the Insurance Studies Institute, the market grew from an estimated $2 billion in the face value of policies sold 2002 to an estimated $12 billion in 2007, and by 2017, the market is expected to reach $31 billion.

The institute is in the midst of a study on the volume of life settlement sales. Even without specific numbers, "we do know seller demand is up. There are more policies for sale that there are buyers," said Paul Siegert, president and CEO of the nonprofit Insurance Studies Institute in Colorado. Aside from needing cash, seniors should consider whether purpose the policy might have served for the named beneficiaries could be taken care of before death. For example, Bruno said, even if the policy is cashed in for less than it would have been worth in the long run, it could pay for a grandchild's college education.

The simplest way to turn the policy into cash is by selling it back to the carrier, but "the only price they would give you was the money you had accumulated in the policy," Bruno said.

Policyholders also have the option of selling their policy for what is known as its intrinsic value -- which could be far greater than the policy's cash value. It may not be pleasant to think about, but the older you are, and perhaps the sicker you are, the higher your policy's potential value to a third-party investor, Bruno said.

"It's the opposite of buying an insurance policy," said Ellen Siegel, a certified financial planner in Miami. "The sicker they rate you the more you get."

Here's an example of how a life settlement could be more valuable than cashing the policy in from lifesettlementchoice.com, which works with a life-settlement brokerage. A 68-year-old man with a $600,000 life insurance policy would have received $28,845 if he had surrendered the policy to his insurance company. Selling it on the market netted him $94,900 -- about $65,000 more than simply cashing it in.
Life settlements are targeted at seniors because, to put it bluntly, their insurance policies are most likely going to pay out faster than those of younger people in better health.

``If you're older and you don't have a lot of liquid assets and you don't need the death benefit, consider a life settlement,'' Siegel said.

The option may sound similar to a viatical settlements. That's the term for a similar method of cashing out or selling a life insurance policy, but those are for people who have a diagnosed terminal illness and need the insurance money to pay for medical care in their remaining years of life.

Life settlements have a bit of a morbid side, too, Bruno said.

``Don't discount the scariest part of this: Somebody's actually going to weigh in on how long you're going to live,'' she said, after a review of your medical records.

If you are considering selling your life insurance policy, there could be tax liabilities. Any amount you cash out that's beyond what you put in, because of accumulated interest, could be considered a capital gain and taxed as ordinary income, Siegel said.

Figuring exactly what you owe could be complicated, so do your homework, she said.

Another way to reap the benefit of your policy -- without the tax issues -- is to take a loan from your life insurance policy.

Borrowing from your policy allows you keep the policy in place, because the older you get and the more health problems you suffer, the more expensive or difficult it could be to get life insurance, Siegel said.

If you don't pay the policy back, the death benefit will be reduced by the amount you took out -- as long as the policy doesn't implode because interest on the loan eats up whatever you didn't borrow. In other words, if the loan isn't repaid and interest is racking up on the loan, the policy could collapse because it no longer has any value. You can also choose to repay the loan over time or pay just the interest on the loan.

The policy could also be more valuable if it is cashed out and converted into long-term care insurance, Bruno said. Adult children might not have the financial resources to keep their parents at home with a nurse or even pay for a nursing home, and the price of care is growing.

Florida has detailed laws governing life and viatical settlements, including a clause that lets you change your mind within two weeks of the sale.

All the rules and regulations are intended to keep the transactions honest. But because there is the potential to get scammed, don't get all your information about a potential payout from a life settlement company, said Helen Simon, a certified financial planner and professor at Florida International University.

Their primary interest is working out the best deal for their company, she said, and someone pursuing a life settlement ``needs to make sure they're getting the unbiased advice.''

Jon Mendelsohn, president and CEO of Orlando-based Ashar Group, said people shouldn't think of life settlements in terms of their past. His company works on behalf of financial advisors and others to negotiate the value of life insurance policies in the secondary market.
``We're not telling people to buy a policy so you can sell it,'' Mendelsohn said. ``It's one potential option. Hopefully, they're being advised to look at it.''

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