

What Is Your Life Insurance Policy Worth?

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By William J. Goldsmith

When it comes to our investments, most of us will at least look at our accounts on an annual basis. Some of us will look at our quarterly statements or monthly statements. Then, there are those of us who check our accounts weekly or daily. But, when it comes to our life insurance, many of us are lucky if we remember how much insurance we own, let alone the type of insurance we own. And, in many cases, we have not reviewed our policies since they were purchased.

We should review our policies every few years or when changes in our lives occur that could warrant a change in our coverage, whether it be the amount of coverage or a change in beneficiaries. If we lose weight, stop smoking or speeding tickets come off our driving record. These are all valid reasons to review our policies because they could significantly reduce our premiums. But, there are also times when reviewing your policies can result in you receiving significantly more cash than you would if you chose to surrender an existing policy.

I have clients, a husband and wife, both age 75, that I sold a \$150,000 universal life policy to each of them a little over twenty years ago. These policies were priced just like twenty-year term insurance with a guaranteed premium for the first twenty years. After the 20th policy year, the premium increased significantly. The clients only planned on having the coverage for the first twenty years and letting the policies lapse after the 20th year.

I recently called the husband to wish him a happy birthday and we discussed their policies that were about to lapse. I knew that his wife had been diagnosed with Alzheimer's disease and was now living in a nursing home. During our conversation, he reiterated that he had no interest in paying the upcoming increased premium level and would surrender their policies. At that time, I suggested letting me get an appraisal from a life settlement company to see if his wife's policy could be sold rather than have it lapse with no value.

As it turns out, my client was able to sell his wife's \$150,000 policy for \$65,500. Considering he was going to receive nothing if he let the policy lapse, he was ecstatic to learn he would be receiving this amount of money which will provide additional financial security in his retirement. These clients do not have children. If they did, this may have changed their decision and my recommendations.

In many cases, it will make sense for people to maintain their existing policies so that their families can benefit from the full death benefit. But, in cases where someone decides they no longer need their life insurance or are unwilling to pay the required premiums to maintain their policies, it makes sense to at least understand all your options and make an educated decision. This is a situation where ignorance could cost you a lot of money. Imagine if my clients each owned \$1,500,000 policies. In this example, the policy insuring the wife could have been sold for \$650,000.

If you own term insurance, there is no cash value. But, if your policy has a conversion option, your policy may still have value in a life settlement transaction. If you own a permanent policy, in addition to the death benefit, you probably have a cash surrender value as well. Any type of permanent life insurance (e.g. whole life, universal life, indexed universal life, variable universal life etc.) is a candidate for a life settlement transaction. With a permanent policy, you would only consider selling the policy if the proceeds from the sale exceeded your current cash surrender value.

Life settlements typically work better for people above the age of 70 or with a significant health issue because shorter life expectancies result in higher values for life settlement transactions. To qualify for a life settlement transaction, a policy must meet certain requirements such as being above a minimum death benefit amount and beyond the incontestability period. The value of your policy

in a life settlement transaction is also based on several factors to include the annual premium needed to pay the policy to maturity based on certain assumptions and the death benefit amount.

So, what is your policy worth? If you meet the criteria listed above, you should know what your policy is worth based on all your options before making any decisions. Otherwise you could lose out on a lot of money.

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