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JIM: September is life insurance awareness month, and today we're going to talk about a subject that's a little bit out of the box. I know I've heard life insurance referred to as an asset class by several people and I know the general public, most of us just look at life insurance as a premium. We don't really consider the value, but could talk to any widow or widower that's cashed a death benefit check and they certainly understand the value, but as we're paying premiums we don't always realize what that value is, and joining us today is Jason Mendelson, and he is someone that has worked in the life settlement arena. His firm has helped people evaluate what policies might be worth. He has helped people that didn't want to keep a life insurance policy explore options of settling their life insurance policy.

I wanted to make sure in today's program, being life insurance awareness month, that people understood their policies may have value that goes beyond cash value or death benefit for policies they may no longer want or need, or just doesn't fit their situation anymore, and rather than just letting them go they should explore their options, so today I want to welcome Jason Mendelson. Welcome, Jason.

1:17

JASON: Thank you, thanks for having me.

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JIM: So how many years have you been involved in the life settlement arena?

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JASON: Thirteen years.

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JIM: Okay, so a lot of people think it might be something new, but this is something you got involved with already 13 years ago. Maybe just describe for our audience what is a life settlement.

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JASON: A life settlement is the sale of an existing life insurance policy that is no longer needed, wanted, or affordable, to a third party for an amount greater than its cash surrender value but less than its net death benefit.

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JIM: So plain and simple, rather than cashing in for cash value to just the insurance carrier, they're the only one that would give you a check, it's finding out if an investor group or an investor might find interest in purchasing that policy. You may receive more than what the cash surrender value will be, so it's an option that people can consider, so why is this important, and when should somebody be considering this? I always say begin with the end in mind, even right down to when you're purchasing a policy because a lot of times people will think term insurance has no value unless you die. Well, if you're buying a term policy something you may want to consider is making sure you have conversion options, because then it may be possible that if once you get to the end of that term, if you no longer need or want that policy, there might be some value there. Is that true?

2:39

JASON: That is true. We're always looking at fair market value.

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JIM: So as people go along in life, one of the reasons you get life insurance is sometimes it's for income replacement, sometimes in a business sitting people are looking at key man insurance, or a buy/sell situation. You may have young ones at home that you want to provide for their college education if something happens, you may want to use it for paying off debt such as a mortgage. There are many reasons why people have life insurance, and I know a lot of times when I talk to clients, they say once we're retired if we've saved enough for retirement we may not need life insurance anymore, although I will contend we still need to replace income because if one spouse dies we're losing a social security check, so there may be a reason to have life insurance in the future, but if we get to the point where we really don't want the life insurance policy anymore, let's go over, what would be the options, Jason, that someone has?

So first of all, you might just surrender the policy, so if it's term insurance there's no cash value. If we have a cash surrender value, we might have that cash, but then there's the life settlement option. How does that work? Is that something just anybody can do or are there certain parameters before that could become a consideration?

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JASON: Sure, so typically if someone is going to look at surrendering or lapsing their policy and a life settlement, if it could be appropriate, it would be typically for a male in their late 70s, a female in their early 80s, and they would either be looking at outside of the surrender value or letting the policy lapse, you could look at either a cash settlement, so selling your policy for some type of cash payment, or retaining a portion of the death benefit which means they still need coverage and so they could actually sell their policy, not have to pay future premiums, but yet beneficiaries would receive a portion of the death benefit upon them passing, and then lastly there is a long term care type benefit where if someone has immediate long term care needs, they could sell their policy and the funds would sit in a trust dedicated solely for that purpose.

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JIM: Let's explore each one of those in maybe a little bit more depth, and I know in my circumstances I'm always talking to people about understanding the value of their assets, and when it comes to life insurance there is basically now three ways that that policy can have value. It can be valuable based on the death benefit, and sometimes those policies might have things like accelerated death benefits to pay for long term care, terminal illness, different things like that, so there are different ways the life insurance can pay that you don't always necessarily need to die in order to collect on the face amount of the policy.

The second way would be to have the cash values, and you can access that through surrender. There might be a way to keep the policy in force and do withdrawals of cash value or policy loans, and those options you definitely don't want to be going any of this alone, you want to be talking to your insurance professional and making sure you understand the consequences of any of those actions, and then the third way is, I need some cash, maybe I don't need the death benefit anymore, so I explore this life settlement option, or as you mentioned maybe I need the death benefit but I'm facing perhaps even losing the policy because I can't afford the premiums.

You talked about a way that somebody could retain part of the death benefit, so in essence what you're doing is as a client, you're giving up the rights to the death benefit, you're retaining the rights to your portion of the death benefit in exchange for them paying the premiums, right?

6:19

JASON: Correct.

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JIM: If someone receives a cash settlement, in most cases then they will be giving up all rights to the death benefit, but they would get a cash settlement and obviously that would make sense to do something like that if it exceeded the value of the cash value, but if the cash value were more it wouldn't make sense to do one of these life settlements, right?

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JASON: Correct.

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JIM: So those are things that people want to consider. You talked about 70s or 80s as where this could be a viable option. I know when I first learned about it, it was more for people in their 60s, but as medical technology has advanced and people are living longer, it's kind of pushed that out there a little bit further, but if I'm someone, let's say I'm in my late 50s and I have some health issues and I'm thinking about reducing my life insurance or whatever, is it something I should even bother exploring or if I'm not in my 70s, just forgot it?

7:12

JASON: When I mentioned late 70s, early 80s, that was really for just standard type of impairments. If someone is younger, whether they're in their 50s or younger, or 60s, and they have some type of illness or major health issue that reduces their life expectancy to somewhere 15 years or less, I would always consider this as just one of several exit strategies.

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JIM: I've talked to clients before about this where they were eligible for life settlements where the offers that came in were greater than the cash surrender value of the policy, and I actually sat down with a family and said, look, we've got total strangers here that are willing to purchase this policy for more than what the insurance company will give you, obviously they see some value in it. It might just be something you as family members want to pitch in and keep the policy, and in the cases that I've been involved in that's just what they did. They ended up keeping the policy, but sometimes we don't have family members maybe involved in the equation or they don't want to pay the premiums, or they just want to get out of it, so what are you finding in a lot of cases when a family is exploring this? What are some of the reasons that someone would consider a life settlement versus keeping the policy?

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JASON: I would agree with you fully. We always tell people life settlement isn't the silver bullet, but it should just be considered like any other exit strategy, so people that are selling their policies typically don't have the need or the resource to keep the policy in force for several years, typically it's that they either just don't have the funds directly, their family doesn't have the desire to keep it in force. They want to actually take the money they're spending on the policy and point it elsewhere, or that the original intention for that policy such as someone who is retiring from a business and the only need they needed the coverage was for business planning, is no longer needed, so it could be as simple as they don't have the money to continue paying the premium, or it could be as sophisticated as there's been a change and a difference needed for estate planning purposes and they no longer need the amount of coverage they have.

9:17

JIM: So it's not something everybody should be just jumping on the band wagon, because some of the consequences of doing this are if you do a life settlement and later on you decide, you know what, I'd really like to still have some coverage, and you apply for a new policy, one of the things that insurance companies go through is financial suitability, and there's a maximum amount of life insurance depending on your circumstances than insurance companies are willing to consider, so I've had it happen in the past where for example people might have donated a policy to charity so that the death benefit would go to one of their favorite charities and later on they decided they needed a little bit more for their family, or maybe another charity that they wanted to consider, and the insurance companies would not issue a policy because of the amount of death benefit already in force, so one thing you've got to be cautious about is what you just described, Jason, is someone that no longer wants or needs the coverage, or/and they have a situation where they can't afford to fund the premiums, that might be a good fit for someone to consider this, but if someone is just looking at it, eh, I just want to get out of this policy and we'll look at our insurance down the road, you could effect your insurability in the future or your access to getting life insurance in the future. Would you agree with that?

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JASON: Yes. We always speak to anyone looking at a life settlement disregarding their capacity for coverage, so if there is a chance they would like additional coverage, they always need to consider what they currently qualify for and what they might possibly need in the future.

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JIM: All right. Well, we're going to take a short break. When we come back, I want to explore the circumstance for long term care a little bit more because I know we work with a lot of people when it comes to Title 19 planning, and 10,000 baby boomers a day retiring, probably down the road we're going to have more and more people needing long term care, that is certainly something people should be aware of, so please stay tuned.

[BREAK]

12:08

JIM: Welcome back as I continue to visit with Jason Mendelson. He works with a company that helps people value their policies, and if they're in a position where they want to settle a policy, they actually shop and get bids for people and help assist people in that process.

Before the break, Jason, we were talking about some of the things that you want to be careful of when considering a life settlement, and we were also talking about why someone would be want to even explore this option, and one of the things you talked about before the break was in the area of long term care, and I've run into this a lot in my practice, as people get older if they have not been properly prepared for long term care with long term care insurance or maybe they don't have enough assets to pay the cost of long term care, they get to a point of what I call spend down.

What happens for people that run out of money, we have a program, Title 19, that will help pay for long term care costs if they're eligible. Without getting into all the details, because we could probably spend an hour or two just talking about what people are able to keep, but in most states what you're eligible to have in cash assets, and when they look at cash assets, I know in the state that I'm in, they look at the value potentially of real estate, although there could be an exemption for the home but they could put liens on it. They look at the cash value of life insurance, they look as investments, IRA accounts, and they add up the total, and until you get down to $2000 and change in cash, Title 19 is not going to kick in, so you've got to spend down these assets.

One thing that becomes really problematic is perm life insurance because you have a cash value there that counts in that formula, and if you have a significant amount of life insurance, say you have $100,000, $200,000, $300,000 and maybe you have a paid-up cash value policy where it's all there but you've got $50,000 or $75,000 or $100,000 of cash value, Title 19 requires you to spend that money down. Let's face it, when we get to a long term care situation we're probably looking at shortened life expectancies, and if we've got a large death benefit such as that, that's an asset that's becoming very vulnerable to being reduced to just the cash value values, and Jason, you had talked about a thing that sometimes is Medicaid approved, a way to get more value out of that policy to help pay for someone always long term care bills. Talk about what that option is.

14:39

JASON: Sure. There's a long term care solution, so for a client who needs immediate long term care needs, so whether or not they need in Home Health, going into an assisted living, or anything that deals with long term care, there is an approved Medicaid spend down where they no longer need to let their policy lapse where they can actually sell that policy, those funds would sit inside a dedicated trust for long term care type benefits, and if the client happens to pass away before the benefit is utilized fully, then it would go to their beneficiaries, but again it does count as an approved Medicaid spend down, allowing them to sell their policy and remain off the system.

15:18

JIM: That is excellent, and today we're just trying to make sure people are aware of this as an option. We're obviously not advising people to go and get a life settlement. What we're advising people to do is make sure that you're aware of your options, and this is something certainly you don't want to go on your own, so the type of people you want involved in helping, one thing is if these policies are for the benefit of family members, I would encourage people that having those family members as part of the discussion is, I don't know that it's mandatory but it's going to be pretty close to that, but also you want to have, if we're talking about Title 19, you want to be talking with an elder law attorney or an attorney that is very familiar with the Title 19 process, and making sure you have your I's dotted and T's crossed.

I know we haven't even got into the tax issues, but obviously when you settle a life insurance policy or cash in the surrender values, you would have some income tax consequences, so you're going to have an accountant or CPA involved partially in that process, and obviously your life insurance professional, making sure that that's the right decision because you have insurability issues down the road. Obviously the death benefit is where you get the greatest value, and before you give that up you certainly want to understand the consequences, so don't go it alone. It's something that's certainly worth exploring versus just giving it up and finding out later you could have had some value there.

Any last words, Jason, or advice that you would give people that might have a policy out there that's unneeded, unwanted, and unloved, and they're thinking of getting rid of it? What would you say?

16:56

JASON: I would say, if you are typically, like I said late 70s or older, or younger with impairments, health impairments, and you are considering due to a change in life circumstance, surrendering or lapsing the policy, I would consider a life settlement just like you would any other exit strategy, and not that it's the silver bullet but it's something that should be explored or considered with the other options you're looking at.

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JIM: So again, no right or wrong, it's just an option that you want to weigh out, and everybody's circumstances are different. For some people this might be a fit, for other people it's probably not the best fit, so it's just a matter of understanding that there are options available, being aware of them, weighing them out with your team of professionals, and coming up with the best decision for you and your family.

Thanks, Jason, I really appreciate you contributing today, and being that this is life insurance awareness month, we're probably discussing something that most people maybe never heard about before, and understanding how to capture the value of life insurance as an asset class, so thank you very much.

17:58

JASON: Thank you.

17:59

JIM: Thanks for joining us this week, and tune in again next week as we explore another phase of the Real Wealth process, and remember if anything you heard in today's show you'd like to get more information about, contact your Real Wealth advisor. Also if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.