



## Term Conversion Life Settlements

As new money flows into life settlement investments, term life settlements lead the way. The reason is that settling a convertible term life policy can work especially well for both policyholders and investors.

For investors, settling a convertible term policy usually means that they will be buying a policy that is convertible to the latest generation of universal life. Newer policies often feature lower mortality rates than older policies. Getting a brand new policy also gives investors the opportunity to manage the policy premium flow to maximize their internal rate of return on the death benefit. The combination of these factors puts convertible term insurance at the top of most life settlement investors' shopping lists. This, of course, translates into better offers for your clients.

From the policyholder's standpoint, settling a term policy can also be a great opportunity. Term is usually purchased to cover a temporary, rather than permanent, life insurance need. When the need ends, the life insurance policy is usually allowed to lapse. A term life settlement is a great way to obtain some salvage value for a policy that would otherwise terminate without value.

Since the final quarter of the calendar year is the busiest in the life insurance business, many term policies have issue dates, and therefore renewal dates, in the fall. The policy anniversary is frequently when policies are lapsed because their premium guarantee period ends. Commonly, it is also when the conversion privilege expires. These are critical dates for your clients to make decisions about the future of their term policies. If and when the decision has been made to lapse the policy, then a life settlement should be considered.

Since a life settlement generally takes several months to complete, to avoid missing a life settlement opportunity for your clients, the process must begin months in advance. While business quiets down during the vacation period, it is a perfect time to review your book of term business to uncover those policies that are reaching critical decision points in the coming months. Who knows, you might even be able to convince several of your clients to convert and keep their coverage!

Here are some recent life settlement cases that produced unexpected cash from term policies:

- A retired 74-year-old male with a \$1.5 million term policy could not afford to convert the policy that was nearing the end of its guaranteed premium and conversion periods. His health was fair for his age, but he was a cancer survivor and had a life expectancy of about 11.5 years. Since he wanted to keep some coverage in force, he was planning to convert a small portion of the policy, \$100,000, and let the balance of coverage lapse. We were able to get him \$45,000 in a life settlement by converting and selling \$1,200,000 of the policy. He was able to convert and retain the \$300,000 balance of the policy for himself. The proceeds of the life settlement covered over two years of the conversion premium which allowed him to keep a larger amount in force for himself than if he had simply allowed the policy to lapse.
- A very ill 53-year-old female was diagnosed with a cancer that was likely to take her life within 5 years. She was burdened by debt and limited income, but also wanted to enjoy her remaining years, needing additional cash to do things with her family. Fortunately, she owned a \$1 million term insurance policy. She kept \$100,000 of the policy for her family, and sold \$900,000 of the policy, which enabled her to obtain enough cash to meet her objectives. Her life expectancy came in at 4 ½ years and we were able to get her an offer of \$590,000. The proceeds paid off debt and checked a few boxes on the bucket list.
- A 69-year-old male with heart issues, with a rather long life expectancy of 15 years, was retiring. There were two \$2 million term policies on his life that were being paid for by his employer. One was a key person policy and the other a fringe benefit. Upon retirement, the policies were no longer needed or affordable, but he wanted to retain and convert \$200,000 for his final expenses. Instead of letting the \$3.8 million simply lapse, we were able to sell that portion of the coverage for \$35,000.
- A 74-year-old male owned two term policies totaling \$1 million in face amount that he was going to allow to lapse. Fortunately, his agent became aware of his plans before they happened. He had non-Hodgkin's lymphoma in remission and his life expectancy was 10 years. By combining and converting the two policies, we were able to get him \$187,000 in a life settlement.

As with all life settlements, the best prospects are those over age 70 who have had some decline in health since policy issue. But whatever the situation, it can't hurt to ask. Give us a call to let us help you explore the term life settlement opportunity for your clients.

For more information, please contact Life Settlement Advisors today!

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