

How Life Settlements Work

Life settlement investments involve purchasing life insurance policies from policyholders who wish to sell them for immediate cash. The buyer, or investor, then assumes responsibility for paying the premiums and receives the end of life benefit when the insured individual passes away. This investment strategy is based on actuarial data and life expectancy rather than market-driven factors, offering a unique long-term investment opportunity. By understanding how life settlements operate, both policyholders and investors can make informed decisions that align with their financial goals.

Understanding the mechanics of life settlements is crucial for both sellers and investors. Here's a step-by-step overview of the process:

Eligibility Assessment

1

The first step for a policyholder considering a life settlement is to determine whether they are eligible. Generally, individuals aged 65 and older, who own a life insurance policy with a significant face value, qualify. Insurers typically evaluate the policy's details, including its type, cash value, and premium costs.

Valuation of the Policy

Once eligibility is established, the next step involves valuing the policy. This assessment is conducted by a life settlement broker or provider who analyzes several factors:

Life Expectancy: A medical underwriting process estimates the insured's life expectancy based on health status, age, and medical history.

Policy Features: The specifics of the insurance policy, such as face value, premium payments, and any riders, impact its value.

This valuation helps establish a fair market price for the policy.

Offers and Negotiation

After valuation, the policyholder receives offers from potential investors. These offers typically exceed the policy's surrender value but may be lower than the death benefit. The policyholder can review multiple offers and negotiate terms if necessary.

Due Diligence by Investors

Investors interested in purchasing the policy conduct due diligence, which includes:

Reviewing Medical Records: Investors may request access to the insured's medical history to assess risk and validate life expectancy estimates.

Evaluating Financial Viability: Investors analyze the ongoing premium costs and how these impact the overall investment return.

Transaction Completion

Once an agreement is reached, legal documentation is prepared. The policyholder receives the agreed-upon cash amount, and the investor takes over the policy, assuming responsibility for future premium payments.

Investor Management of the Policy

After acquiring the policy, the investor must manage it until the insured passes away. This includes:

Paying Premiums: The investor continues to pay premiums to keep the policy active.

Monitoring the Policy: Investors should regularly review the policy and any changes in the insured's health that could affect the investment.

End of Life Benefit Payout

When the insured passes away, the investor receives the death benefit from the insurance company. This payout represents the ultimate return on investment, closing the loop on the life settlement transaction.