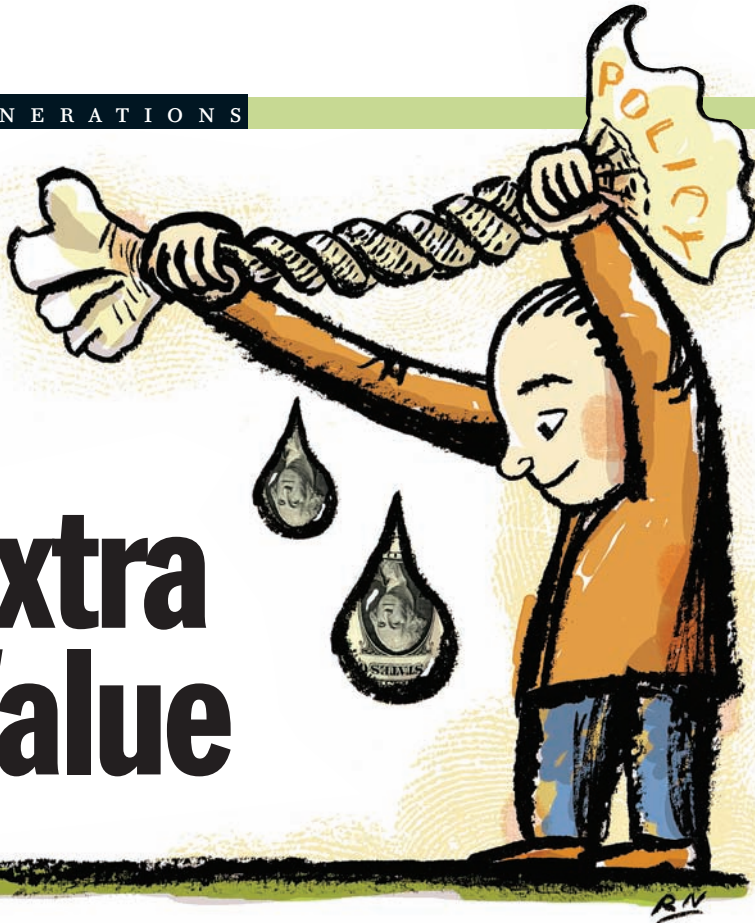


TIME

TIME BONUS SECTION, NOVEMBER 2006

GENERATIONS



Extra Value

Life-insurance policies can be resold to investors for more than just pin money. No more premiums either

By DANIEL KADLEC

WITH HIS ONLY CHILD ENTERING COLLEGE AND A WIFE WHO works, David Blumenthal, 64, a mortgage broker in Philadelphia, recently concluded that he was carrying more life insurance than his family needed. But after paying premiums for five years on \$1 million of term coverage, he didn't like the idea of simply letting the policy lapse and walking away empty-handed. So he took advantage of a relatively new option.

Blumenthal, who is in good health, converted his term insurance into two separate universal-life policies, one with a \$780,000 death benefit and the other with a \$220,000 death benefit. There's nothing new about converting from term to universal life, which adds a savings component. But Blumenthal then sold the larger policy to investors, who paid all related costs and in time will collect the death benefit. Says Blumenthal, who was ready to ditch the term policy to avoid further premiums but ended up sticking \$20,000 in his pocket instead: "I have nothing

but kudos to say about the whole process."

The market for reselling life insurance in this way—known as a life settlement—has grown from nothing a decade ago to \$13 billion, and will hit \$160 billion over the next few years, according to estimates from the investment firm Bernstein Research. There are about 50 life-settlement firms, which either hold onto the policies for their portfolio or package them for resale to Wall Street. Pension and hedge-fund managers are snapping up these investments, eager to lock up returns that are not correlated to the stock market.

All the action is yielding some nice paydays for policyholders who want out from under their insurance premiums. Those most likely to strike a rich deal are over 60 who have at least \$250,000 of coverage and have suffered a decline in health. Blumenthal might have got five times as much as he did had his health deteriorated in a significant way.

"As a practical matter, people should keep their life insurance for life," says Michael Freedman, senior vice president at Coventry First, a leader in the life-settlement industry. "But things change." Some good reasons to want out of a life policy include the death or divorce of a beneficiary, a sudden need for funds or escalating premiums that have become unaffordable. Or maybe you've managed to save enough to become self-insured, meaning you can meet your dependent's needs with the assets that you have put away.

An incredible 88% of universal-life policies never result in a death benefit being paid. The policies either lapse or are surrendered for their cash value. In both cases, a life settlement may make more sense. In the case of a lapsed policy, the death benefit is often greater than the sum of premiums remaining to be paid. And 1 in 5 policyholders over 65 is in line for a life settlement greater than the surrender value of the policy, according to Conning & Co., an insurance-research firm.

Of course, maintaining your policy until you die is usually the smartest move of all—if you can afford it. "People don't think they're ever going to die, which is why life insurance is such a hard sell in the first place," says John Skar, chief actuary at MassMutual Life. He believes most life settlements are a mistake because sellers get only half the intrinsic value of their policy. After all, investors are only willing to take on the payments because they know your life expectancy—and they plan to come out ahead.

So if you want to leave something behind for your heirs, it may make sense to sell some stocks or real estate—if you must in order to meet current expenses—and keep paying on the life policy. But if you're inclined to let your life insurance run out or surrender it for its cash value, consider a life settlement first. Like finding something of value amid the junk in your attic, you'll be happy you didn't just toss it. ■

ILLUSTRATION FOR TIME BY ROBERT NEUBECKER

“PEOPLE SHOULD KEEP their life insurance for life, but things change.” —Michael Freedman