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Insurance - Tackling the Costs of Serious Illness

By WHN's Guest Columnist, [M. Bryan Freeman](#)

If you or someone you care about has been diagnosed with a serious illness, you may have already discovered that dealing with actual health issues is just part of the individual puzzle you must reassess and reassemble. Financial challenges frequently accompany serious illness.

- ▶ A life settlement is an option you may want to consider.

What is a life settlement?

A life settlement is the sale to a third party of an existing life insurance policy for more than its cash surrender value but less than its net death benefit. Although life settlements are usually undertaken by relatively healthy seniors for financial- and estate-planning reasons, people with serious illness also may qualify. Here are answers to some of the most popular questions regarding life settlements:

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How does this work?

1. When a life settlement is transacted, the buyer (known as the life settlement 'provider') becomes the new owner of the life insurance policy, pays future premiums, and collects the death benefit when the insured dies.
2. The insured or owner of the policy stops paying premiums and all policy costs are assumed by the provider, for the lifetime of the insured individual.
3. This new policy owner pays a discounted amount – a percentage of the policy's face value – to the seller.
 - ▶ The percentage may range from a modest offer up to a significant portion of the policy's value.
 - ▶ Statistics from reports filed with some states indicate that the average runs between 12 percent and 25 percent of the face of the policy. It can run much higher in circumstances in which the insured is terminally ill with a short life expectancy.

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Other options?

1. The discounted amount paid in a life settlement transaction is almost always higher than the cash surrender value (CSV) of a life policy (if the policy indeed has cash value).
2. Surrendering the policy for its cash value or transacting a life settlement is certainly a better option than "lapsing" a policy, which means it simply goes away, with no benefit to the policy owner and/or insured other than that they no longer have to pay premiums. (About 93 percent of policies are said to lapse, without a benefit ever being paid.)
3. An accelerated death benefit is another option, if your policy includes such. It pays some of the policy owner's death benefit before the insured dies. Not all policies offer such an option. When they do, you usually have to have a very short life expectancy to qualify.
 - ▶ An accelerated death benefit may be a good option for someone who wants to generate cash and still retain a portion of the policy's original death benefit payable to their heirs at a later date.
4. Some life settlement scenarios present a similar option, in

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which a policy is split, with one of the resulting policies being settled and the other being retained to benefit heirs.

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I might not qualify?

Life settlements are based, by and large, on life expectancy. The shorter your life expectancy – due to age or illness or a combination of both – means a higher settlement amount.

- ▶ If you do not qualify, it will most likely be because your life expectancy is considered normal.
- ▶ You may not qualify for a life settlement because your policy – the type, age or rating – eliminates it from purchase criteria.
- ▶ Most types of life policies do qualify for settlement.

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What will my responsibilities be?

- ▶ You will not be required to take a medical exam.
- ▶ You will be asked to sign a release allowing the potential policy buyer to review your medical records.
- ▶ You may be asked to provide proof that your policy is not encumbered by a divorce decree, bankruptcy or other personal circumstance.

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Who might I involve?

- ▶ Your insurance agent may be a source of settlement information.
- ▶ You may deal with a life settlement broker.
- ▶ You may be able to go directly to a life settlement provider (the purchaser).
- ▶ You may want to consult with your own accountant, attorney or financial planner.

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How can I spend my settlement?

- ▶ The cash settlement you receive is not restricted.
- ▶ You can use the settlement for anything: direct health care expenses, paying bills, alternative treatments, travel or anything else.

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Tax liability

Life settlements often carry tax implications (ordinary income and/or capital gains tax). Life settlements transacted by people with a life expectancy of 24 months or less may be eligible for tax-free treatment.

- ▶ Speak with your legal and financial advisors for a thorough analysis before making any life settlement decision.
- ▶ Although the life settlement company you deal with likely does not provide tax advice, they can often help you and your advisors better understand the process and its implications.

What will this cost me?

- ▶ You should not be required to pay a fee for a life settlement.
- ▶ The company that purchases your policy absorbs that cost and remunerates anyone involved, like a broker, in accordance with prevailing laws and regulations.
- ▶ If you decide not to accept a settlement offer, you should owe nothing.

Precautions and safeguards?

1. Ask yourself: Do I still need the life coverage I am considering selling? If so, a life settlement may not be for you.
2. Proceed with caution when making ANY major financial decision.
3. Understand beforehand if you are eligible for future life insurance coverage.
4. Receiving any lump sum of cash may affect other benefits you receive; keep this in mind when considering a life settlement or any other transaction that generates an influx of cash.
5. All parties to a settlement should be appropriately licensed, as applicable and appropriate. Check with your state insurance department to ensure if various life settlement entities are licensed. (As implied here: Life settlement licensing is handled on a state, rather than federal, level.)
6. You should deal with companies who are members of the Life Insurance Settlement Association; (LISA) is the oldest and largest non-profit life settlement industry group and membership therein demonstrates a willingness to invest in the industry and to strive for high standards and responsible regulation.
7. It also should be stressed that the independent tax, financial planning and legal advisors to whom a consumer turns for settlement advice should themselves be knowledgeable about the settlement process.
8. Precautions are taken so that investors in policies that are subject to a life settlement do not know your identity. Thus, a settlement should not put you in danger.
9. Individual investment in life settlements is not appropriate for most people and should be undertaken only by sophisticated investors who have advanced knowledge of settlements and enough assets to adequately diversify.

If your health challenges have you looking for financial solutions, a life settlement may be an option for you. Educate yourself about the process so you can make the best decision for your individual circumstances.

M. Bryan Freeman, a licensed insurance agent for 28 years, is founder and president of Habersham Funding LLC, an Atlanta-based life settlement provider that does business nationally. In 2006 he was recognized with resolutions from both houses of the Georgia Legislature for his settlement industry leadership upon completing his fourth term as president of the Life Insurance Settlement Association. He is a strong proponent of responsible life settlement regulation and has spearheaded such legislation for a number of states.

The information provided here is not meant to be a substitute for professional insurance or legal advice. Always check with a financial, legal, tax, or other advisor before making any insurance policy changes.

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