

Group Insurance: An Emerging Market for Life Settlements

By Chris Lane, President
Assignable Life Assets

First, think doctors, lawyers, accountants, police, firefighters, veterans, Federal employees, State employees, education system employees, health care workers, association members and on and on and on. What do they all have in common? Group term insurance. What happens to Group insurance upon early retirement or when the employee retires at the age of 65? It ends. Do retirees normally convert their Group insurance to Whole or Universal Life insurance? No they do not. Why not? Because converting from group insurance to individual insurance upon retirement usually results in a dramatic increase in premiums, at a time when people take a reduction in income.

Group policyholders are an emerging market for life settlements because funding companies for life settlements are now looking at longer life expectancies of up to 15 years. In the past, providers were most interested in policies where the life expectancy might be eight years or less. However, you do have to ensure that the life insurance company carrying the group policy does **not** have a policy of reinstating contestability upon conversion. A two-year contestability period would mean a low probability of sale.

Now think baby boomers and the fact that the leading edge of the boomers is approaching retirement age. You can bet that they're taking a good, hard look at what retirement will mean to them financially. Retirees today have to take into consideration higher health care costs, coupled with increased longevity. Also, fat company pensions are no longer the norm, so retirees must be more self-reliant in producing retirement income. A cash settlement from a converted group policy would be a welcome supplement to anyone's retirement plan.

Converting a group policy and securing a life settlement on the individual policy provides additional cash to the retiree. Here's how it works. A policyholder should apply to a life settlements broker three months prior to retirement. This allows sufficient time for the application to be processed, circulated to providers for competitive bids by the broker and an offer of purchase secured for the policy, contingent on conversion. Upon retirement, the policyholder converts the group term policy to Whole or Universal Life and pays the first month's premium. After the policy is established and the life settlement finalized, the provider reimburses the policyholder for the first month's premium and then continues to pay the monthly premiums. The retiree receives a much-needed cash infusion, in the form of a life settlement, instead of just letting the group policy lapse, with no benefit. The happy retiree then generates referrals for you by telling others of the cash settlement he or she received.

The retiree then has more financial flexibility and can look at a wide range of options for investing or spending the settlement. The money can cover health care costs, purchase a long-term care plan or simply be invested to provide additional income in retirement. In any event, you come out a hero.

There's another possible market for group insurance conversions. It's comprised of people who have serious health problems prior to retirement and are collecting disability insurance. If an employee is diagnosed with cancer and is unable to work, many employers will continue the basic group coverage and even some of the supplemental coverage, under a waiver of premiums if the client is disabled. Under these circumstances, it may be possible to convert the group policy to individual, prior to age 65, if the person needs cash for medical treatment. Typically, the group coverage will end at age 65 so the policy can then be converted and sold. Often a person who is disabled doesn't have the option to increase her or his income in any other way.

According to the Employee Benefit Research Institute's *2002 Retirement Confidence Survey Summary of Findings*, "...the average retiree now age 60 or older retired at age 62. In fact, many retirees today retired earlier than they had planned (45 percent). While some of those who retired

early cited positive reasons for leaving the work force early, such as being able to afford an early retirement (37 percent) or wanting to do something else (20 percent), more mentioned negative reasons, including health problems or disability (52 percent) or changes at their company, such as downsizing or closure (26 percent). Some workers may be able to extend their working career beyond that of current retirees, but others will find themselves vulnerable to an unplanned early retirement for the same reasons.”

Whether the person is a middle-income earner, an affluent professional or a person disabled and vulnerable in an unplanned, early retirement, his or her Group policy is an asset that may be converted and sold for a life settlement. This is a key piece of information that any person about to retire needs to know. In fact, it may be critical for people to know, in light of what Buck Stinson, President and Chief Executive Officer, GE Financial Advisors and a LIMRA Board Member stated in the 2003 LIMRA Annual Review.

Stinson declared, “The research I’ve seen indicates a future of tremendous stress, if not crisis, in our social framework in the United States and worldwide, resulting from aging baby boomers with a lack of savings and personal insurance to offset the rising cost of health care. We have a significant opportunity to educate our clients, influence public policy, and develop product solutions to mitigate this problem. Consumers need to take personal responsibility for their family’s retirement income and protection plans. It matters less whom they invest with or what products they invest in. What matters is action.”

That action can now include converting a Group policy to an individual, and securing a very lucrative life settlement. It will be a very attractive option for many retirees. Letting the Group insurance lapse, without exploring the possibility of conversion and sale is a missed opportunity for the policyholder, the insurance company and the agent.