



Life Insurance Settlement Series Edition No. VII

Surveys of Seniors Reveal Roadblocks to Reliable Life Settlement Information

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The Insurance Studies Institute (ISI) has undertaken an analysis of consumer decision-making behavior affecting the purchase and ownership of life insurance. In order to complete this work, ISI conducted several surveys and personal interviews, partnered with the University of Minnesota, and examined other surveys conducted by the Society of Actuaries and the Agent's Sales Journal. See Appendix A for survey resources and research methodology. While people typically purchase life insurance in their 30s and 40s, this research targets individuals over the age of 65. The research focus was to capture the opinion of consumers who have had the opportunity to not only purchase life insurance, but to assess its practicality throughout their working and retirement years.

The surveys show that 80% of seniors have at one point in their lives purchased life insurance, but that their needs for life insurance have changed over time. Evidence suggests that regardless of why life insurance is purchased, it is often not held until maturity. Even though life insurance is typically purchased to provide protection for beneficiaries, 40% of seniors report that they have terminated a policy. The majority of those policyholders claim they no longer needed the coverage.

Over the last decade, a secondary market has developed that allows seniors to realize the true value of their life insurance policies by selling their policies to investors. The surveys reveal that when seniors are informed of this option, known as a life insurance settlement, they find it to be an attractive alternative to lapsing or surrendering a policy. Many who previously terminated a policy without knowledge of life insurance settlements are disappointed that they were not made aware of the option. As one respondent put it, "It would've been nice to get some money back after so much was paid into it [the life insurance policy]." However, low familiarity and understanding, resulting in large part from insurer anti-life settlement practices and somewhat from inconsistent messaging in the media, prevent most seniors from considering it as a viable option.

More than half of seniors do not know they can sell their policies. They are not aware of the value that may be available from a life insurance settlement. Consumers have not been adequately educated and conflicting messages have led to

skepticism of the option's validity. The life insurance industry feels threatened by the rise of the Life Insurance Secondary Market ("LISM")¹, which is reflected in their messaging. Life insurers have employed many questionable methods to thwart the growth of the LISM, even going so far as to threaten to fire insurance agents for participating in a life insurance settlement, which is in direct conflict with their fiduciary duty and a violation of some state laws.² Media articles are inconsistent and often use sensationalism to negatively portray the life insurance secondary market.³

These issues, along with inferior industry education, represent roadblocks for seniors who deserve clear, trustworthy, and comprehensive information about the life insurance settlement option.

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I The Role of Life Insurance and the Evolving Needs of Seniors – Life Insurance Settlements Can Provide a Valuable Option

The basic function of insurance is to take the burden of financial risk off of individuals and businesses. Insurance allows for the pooling of risks so that many bear the brunt of a few. However, over the years, life insurance has evolved to provide both risk protection and investment features.

Seventy-three percent (73%) of those surveyed by ISI said the primary purpose for purchasing a life insurance policy was to



provide for their beneficiaries. The estate planning benefits are also an attractive feature with 11% stating that the investment/savings aspect was their primary reason for purchasing a life insurance policy; while another 10% plan on using the policy to pay off debts upon death. While life insurance certainly has a monetary value component, it also provides policy holders with the intrinsic value of ensuring that survivors and beneficiaries are protected.

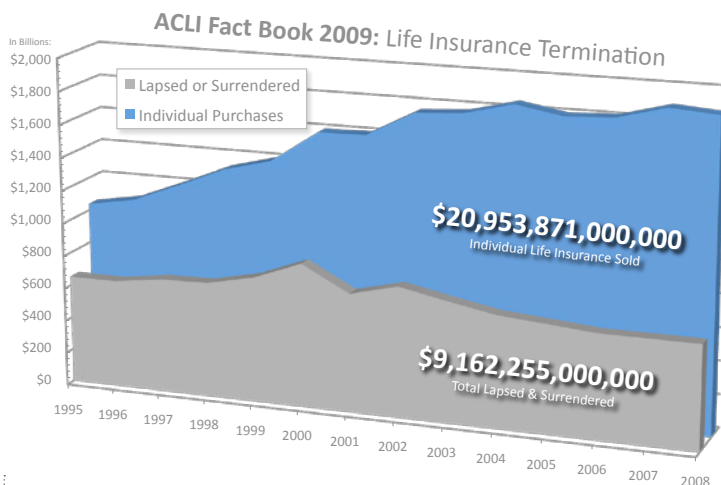
Regardless of a person's original intent for purchasing a life insurance policy, needs generally change over time. Children grow up, estate planning needs lessen, more profitable investment opportunities arise, premiums become too expensive, the risk of dying too soon is replaced by the risk of not dying soon enough, etc. For many policy holders, changes in major life situations may result in the policy no longer providing the same level of intrinsic value. Costly obligations of future premium payments may diminish the policy's monetary value. At this point, consumers typically re-evaluate the need for life insurance.

In fact, 40% of seniors surveyed have lapsed or surrendered a policy. Thirty seven percent (37%) of those who have terminated a policy simply felt the cash value was worth more to them than keeping the policy in force and continuing to pay premiums. Thirty percent (30%) had outgrown the need for life insurance and 23% stated that the premiums had become unaffordable. Ralph K., of Washington, epitomized these sentiments when asked why he surrendered his life insurance policy. "I outlived the policy [so to speak]. The premiums were going up and becoming unaffordable. My wife passed away and the kids were grown up so I didn't need it anymore."

The statistical findings of the surveys are supported by data available from the American Council of Life Insurers ("ACLI"). According to the ACLI, during the period from 1995 to 2008, almost \$21 trillion of life insurance was sold. (see graph) In that same period, however, over \$9 trillion of life insurance was terminated. In other words, the number of policies that lapse or are surrendered without ever paying a death benefit approximates 44% of the volume of policies sold, as illustrated in the chart above.

Nearly 60% of survey respondents said that given the state of the economy, they are concerned that their savings and overall net worth may no longer be enough to sustain them through retirement. As the economy takes longer than anticipated to recover, 30% of seniors are considering returning to work in some capacity because of the financial crisis. At a time when investment savings are crucial to fund their retirement years, many nest eggs have suffered greatly with losses of 50% or more.⁴ Clearly, older Americans have been hit hardest by the current economic crisis.

Premium payments required to maintain a policy can become burdensome, especially when a policy owner is already financially stressed. In such a situation, the policy owner has



to decide if keeping the policy is an option that can even be considered, or if other options should be evaluated. The 2010 General Accountability Office report contains data that suggests a life settlement can pay amounts that are up to 5-10 times greater than cash surrender values.⁵ Other survey data and ACLI data indicate that if the life insurance policy cannot be afforded and/or is no longer needed, most policy owners resolve to terminate the policy. Unfortunately, survey data also shows that most seniors terminating their policies do not know of the life settlement option, so the materially greater value that the GAO survey reports is not really available. This is a failure of all parties seeking what is best for consumers.

II Conflicting Messages Leave Consumers Uninformed


Members of the media, whose job it is to sell stories, and insurance companies, who are generally anti-life insurance settlement, often deploy deliberate methods of misinformation to distort the life insurance settlement transaction and the value it provides.⁶ Financial advisors report that a general lack of knowledge prevents them from recommending life insurance settlements to their clients.

Media Portrayal

Evidence shows that many media articles illicit fear by using sensationalism laced with factual inaccuracies. While there are a number of media members who do an excellent job of researching the particulars of life insurance settlements and report the facts to consumers, there are many articles that are poorly researched and poorly written. Often, articles about life insurance settlements are coupled with images of the "grim reaper" or "tombstones" and labels such as "death bonds" or "mortality futures."

The 2009 ISI empirical analysis of media publications regarding the portrayal of life insurance settlements found that the media's depiction of life insurance settlements has been both sparse and inconsistent.⁷ The general lack of knowledge found





among consumers is a sign that the media has not fulfilled its obligation to provide consumers with sufficient information. The question ISI put forward was, “has the media done its job in providing useful knowledge to senior consumers?” Considering that 80% of seniors own life insurance but less than half are aware of life insurance settlements, the efficacy of most consumer-oriented articles is questionable. Further, as reported by the U.S. General Accountability Office, the LISM has provided billions of dollars to consumers for their unwanted, unneeded, or unaffordable life insurance policies.⁸ Why has the media failed to bring this to consumers’ attention?

Insurer Interference

At one point, many insurers embraced the life insurance settlement. In fact, firms such as Phoenix Life, Genworth Financial, and AIG started their own life insurance settlement operations.⁹ A 2008 survey conducted by the Society of Actuaries found that 32% of life insurers planned to investigate future involvement in the market with another 11% planning to actively purchase policies as an investment.¹⁰ However, with capital bases weakened following the 2008/2009 financial crisis, the insurance industry has become more resolute in their opposition to life insurance settlements, and carriers have begun to carry out questionable actions to taint public perception of the LISM, and stunt the growth of the settlement industry.

The right to transfer life insurance policies was affirmed by the U.S. Supreme Court in the 1911 case of *Grigsby v. Russell*. Justice Oliver Wendell Holmes found that an insurance policy is property of the owner, thus giving them the right to sell it at their choosing. However, during the past few years, market participants have claimed insurers are routinely using delaying tactics to hinder the sale of life insurance policies.¹¹

“Insurer actions in some cases border on being emblematic of bad faith,” said Nick Williams, an attorney with the law firm Clifford Chance in New York. “Insurance companies in the U.S. owe a duty of good faith and fair dealing with insureds they insure.”¹² In attempts to stymie life insurance settlement transactions, insurers have engaged in disruptive and perhaps illegal tactics such as delaying or refusing to issue verification-of-coverage; telling life insurance settlement providers the death benefit may not be paid; refusing to convert term policies into permanent coverage; contacting policy owners in an attempt to dissuade them from selling their policies; terminating or threatening to terminate agents involved in life insurance settlement transactions; attempting to increase the cost of insurance after a policy is sold; and, propagating distorted facts in an effort to confuse consumers and policy owners to deter them from realizing the legitimacy of the life insurance settlement industry.¹³

On February 3rd 2010, the American Council of Life Insurers issued a statement calling for a ban on life insurance settlement

securitization. The statement was part of a larger campaign by the ACLI to confuse legitimate insurance settlements with stranger-originated life insurance (STOLI) transactions. STOLI transactions are illegal and vehemently opposed by the LISM. But the ACLI’s tactic is to imply that all life insurance settlements are STOLI transactions. The fact is, STOLI transactions stem from insurance agents and are issued by insurers. Even the SEC recognizes the legitimacy of life insurance settlements and has issued guidance recommending life insurance settlements to be regulated just like any other security.¹⁴

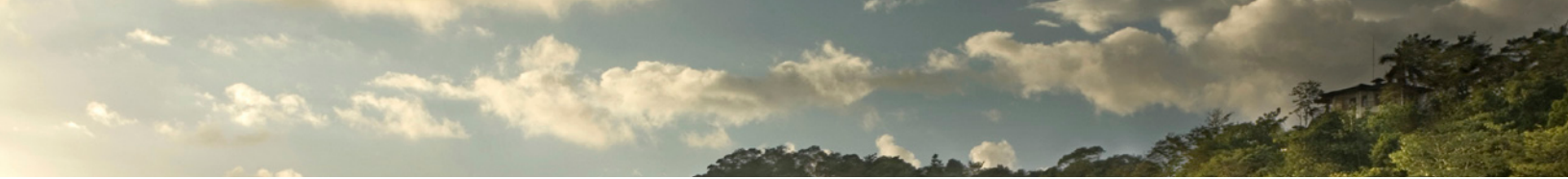
Some of the more astute members of the media have seen through ACLI’s ruse. Steve Piontek, Editor-in-Chief for *National Underwriter Life and Health* writes: “But this leads me to a dirty little secret that ACLI has been loath to even acknowledge; this is that STOLI transactions have to be done through life insurance companies. Who else writes life insurance policies?” Piontek finds it hard to believe that insurance companies, whose underwriting is truly sophisticated, cannot identify the applications made for STOLI purposes, or pinpoint the agents who consistently bring in these types of applications.¹⁵

A report issued by the Society of Actuaries earlier this year found that 50% of direct writing life insurers say their company procedure is to “terminate producers circumventing the system” and 33% say they would consider rescinding the policy if it is sold.¹⁶ These responses are in spite of the fact that 40 states have legislation in place governing life insurance settlements, with six states requiring life insurance companies to notify consumers of life insurance settlements when they send the consumer a lapse notice. There is no justification, based on compliance with law, to rescind terms of a life policy because of a life insurance settlement or to fire agents for participating in a life insurance settlement.

Not only do such actions directly interfere in the policy owner’s right to sell a policy, they interfere with fiduciary responsibilities agents have with their clients. As a fiduciary, “the agent has an obligation to act in the best interest of the insured. The agent must recognize the importance of dealing with the insured’s financial needs and problems and offer solutions to these problems.”¹⁷ Under these standards set by agency law,¹⁸ agents are required to inform their clients of the life insurance settlement transaction. But the actions taken by the insurance industry, which are in direct conflict with these standards, leave agents to choose between their clients or their job.

Lawmakers, concerned that consumers need to be aware of all options, have established laws and are proposing legislation that require life insurers to inform life insurance policy owners that life insurance settlements are an alternative to lapsing or surrendering their policies. The National Conference of Insurance Legislators (NCOIL) is drafting model state legislation to require life insurers to include life insurance settlement as one of the options policy owners have when considering





terminating their policies. Kentucky, California, New Hampshire, Oregon, Maine, and Washington already have laws that require disclosure or prohibit interference, and several other states have similar legislation in some stage of development.¹⁹ Life insurance settlements are “a recognized option and should be included in the policy language, because it is legitimate”, said Kentucky state Rep. Ronald Crimm.²⁰

Financial Advisors

Financial advisors who support life insurance settlements say they are an effective planning tool and represent a great option for clients who no longer need their life insurance policies or who want a return on the money they invested in the policies. However, 49% of advisors cite the lack of knowledge as the number one reason for not feeling comfortable recommending life insurance settlements to their clients; another 23% state that they are prohibited by insurers from recommending a life insurance settlement to their clients.²¹

Comments received as part of the 2010 Life Settlement Market Study reveal that the ACLI’s effort to confuse legitimate life insurance settlements with illegal STOLI transactions is gaining traction. For instance, a captive agent from Hamden, CT, said, “The major life insurance companies I represent do not approve of life settlements, nor do I. I am not a believer in stranger owned life insurance.”²² The fact that this advisor is confusing ‘stranger-owned’ with ‘stranger-originated’ life insurance reflects how confusion in messaging from insurers is adding to the lack of knowledge and understanding.

Regulators should be asking: “Is the insurance industry’s anti-life settlement campaign compliant with legislation designed to assure that consumers’ interests and rights are fairly protected?”

III Consumers Want Clear and Accurate Information Regarding the Life Insurance Settlement Option

As stated earlier, less than 50% of the senior population is aware of the life insurance settlement option due to erroneous, unclear and inaccurate messaging. Forty percent (40%) of the senior population would consider selling their policy even though 89% of respondents, when first exposed to the definition of a life insurance settlement, did not consider it to be a positive option. In one survey, respondents were provided with a standard definition of a life insurance settlement as typically communicated by the industry. When asked why she had a negative reaction to the definition of a life insurance settlement, Sylvia F., of Massachusetts exclaimed, “The words!” Sylvia participated in an online survey and after reading the definition she thought, “Here’s just another way to take people’s money. There are so many scams out there.”

Of those interviewed who previously lapsed or surrendered a life insurance policy, 90% (nine out of 10) said they definitely

would consider selling their policy and wished they had known about it when they terminated their policy. This substantiates the observation that creating clear and accurate understanding is paramount in enabling seniors to make wise choices. For example, Ken P., of New York, indicated that he was uncomfortable with an investor owning his life insurance policy. Ken said, “I want control over the policy on my life. I’m uncomfortable with another person owning a policy on my life.” However, during the interview he indicated, “I would not have a problem with a third person receiving a benefit when I die as long as I was paid enough and was able to check out the investor and the contract thoroughly.” Dowlan N., of North Carolina, expressed similar concerns: “Selling a policy on a life to a stranger is decidedly ghoulish. But I still would’ve considered it. I’d need to know more about it and who would own it.”

Many seniors have had situations similar to Sylvia’s. At first she thought it sounded like a scam, but after being given the opportunity to ask questions and learn more about the process, she wishes she would have been better informed of her options. “There wasn’t enough information,” said Sylvia. “It needs to be carefully explained. There needs to be a website. People need to be better informed in order to make a decision. We need the tools.”

Elaine B., of North Carolina, is also upset that she didn’t know of her options and felt a life insurance settlement would have been an “attractive option.” “I would have made the effort to do the research and find someone knowledgeable of how the process works,” said Elaine. “Someone should make it known. It should be disclosed that this is an option for people who no longer want their life insurance policy.”



The Insurance Studies Institute

ISI is a non-profit research think-tank focused on: a) researching and analyzing challenges and opportunities within the many paradigms of insurance based risk management; b) publishing research findings on industry relevant topics; c) educating industry stakeholders, public policy makers and consumers in insurance based risk management, and advancing related scholarship; and, d) promoting dialogue to foster industry advancements, fair public policy and greater risk protection for consumers.

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IV Seniors Make Financial Decisions Based on Trust

Evidence shows that today's seniors value self-respect, family ties, and relationships. Seniors make it clear that financial implications alone will not win them over. Seniors want to feel good about their financial decisions. They make decisions based on familiarity and trust. So even if a life insurance settlement provides the best financial option, the unknown nature of the option, lack of understanding of the industry, and concern with information protection prohibits the consumer from considering it.

While the economic value of a life insurance settlement is in the payout, the real value is the consumer's option to sell the policy. The senior wants to understand the option and have control of the decision. All parties involved need to ensure that policy owners are provided with fair and balanced information so that they can make educated decisions

V Conclusion

The life insurance settlement option represents a missed opportunity for many consumers. When properly educated, most seniors surveyed reacted favorably to the possibility of selling their life insurance policy, and many who had terminated a policy regret not knowing the settlement option existed. The reality for most senior policyholders, however, is that the absence of clear, honest and comprehensive information prevents them from considering life insurance settlements as a viable option.

Survey data tells the story: 80% of seniors have purchased life insurance at some point in their lives; less than half of these policyholders have ever heard of a life insurance settlement; and over 40% of policies never pay a death benefit because policyholders choose to discontinue their coverage - believing that their only options are to lapse or surrender their policies.

This unfortunate scenario represents multiple failures:

- a failure of insurers, agents, and financial advisors whose lawful and fiduciary duty it is to ensure that senior consumers understand all available options,
- a failure of the media, which has a responsibility to present unbiased and factual information to consumers,
- a failure of legislation to consistently ensure that consumers' interests and rights are fairly protected,
- and a failure of the LISM to promote a clear and resounding message to seniors about the value and validity of the life insurance settlement option.

In order to deflect the negative impacts of insurer interference and media bias, all stakeholders in the life insurance secondary market must step up to the task of educating senior consumers.

Footnotes

- 1 When a consumer embarks upon the sale of a life insurance policy, often the only communication they receive is from their insurance agent or financial representative. That person in turn brings that policy to market, which is made up of many parties who assist in the completion of the transaction. A life settlement broker works with the insured's financial representative to receive bids from life settlement providers, who purchase policies and have third-party investors. Medical underwriters assist in the process by providing life expectancy estimates so that the providers can determine the value of the policy. Other servicing firms include tracking agents, collateral managers, escrow agents, auditors, and information service providers. Together, these parties make up the Life Insurance Secondary Market ("LISM").
- 2 Report of the Society of Actuaries Life Settlements Survey Subcommittee, Society of Actuaries, 2010.
- 3 Jesse Miller, Christopher Kampa, Paul Siegert, Portrayal of Life Settlements in Consumer-Focused Publications, Insurance Studies Institute, 2009.
- 4 During the period from October 2007 to March 2010, the S&P 500 lost 57% of its value. On October 9th, 2007, the S&P 500 reached an all time high of 1,565.15. On March 9th, 2010, the S&P 500 bottomed out at 676.53.
- 5 Report to the Special Committee on Aging, U.S. Senate, Life Insurance Settlements, Regulatory Inconsistencies May Pose a Number of Challenges, United States Government Accountability Office, 2010.
- 6 Steven A. Morelji, Insurers Launch New Attack Against Life Settlements, InsuranceNewsNet Magazine, 2010. Steve Piontek, Dirty Little Secret, National Underwriter, 2010.
- 7 Jesse Miller, Christopher Kampa, Paul Siegert, Portrayal of Life Settlements in Consumer-Focused Publications, Insurance Studies Institute, 2009.
- 8 Report to the Special Committee on Aging, U.S. Senate, Life Insurance Settlements, Regulatory Inconsistencies May Pose a Number of Challenges, United States Government Accountability Office, 2010.
- 9 AIG, Phoenix Life, and Genworth Financial: <http://www.nuwireinvestor.com/articles/life-settlements-what-investors-should-know-51429.aspx>
- 10 Report of the Society of Actuaries Life Settlements Survey Subcommittee, Society of Actuaries, 2010.
- 11 Donna Horowitz, Carriers Said to Stymie Transactions, The Life Settlements Review, 2010.
- 12 Ibid.
- 13 Ibid.
- 14 Report to the Special Committee on Aging, U.S. Senate, Life Insurance Settlements, Regulatory Inconsistencies May Pose a Number of Challenges, United States Government Accountability Office, 2010.
- 15 Steve Piontek, Dirty Little Secret, National Underwriter, 2010.
- 16 Report of the Society of Actuaries Life Settlements Survey Subcommittee, Society of Actuaries, 2010.
- 17 Life and Health Insurance License Exam Cram, Bisys Educations Services, 2004.
- 18 The law of agency is an area of commercial law dealing with a contractual or quasi-contractual set of relationships when an agent is authorized to act on behalf of another (called the Principal) to create a legal relationship with a Third Party.
- 19 Trevor Thomas, NCOIL Advances Life Settlement Disclosure Model, National Underwriter, 2010.
- 20 Ibid.
- 21 Christina Pellett, Life Settlements Poised for 'Natural Growth,' but Producers Still Lacking in Education, Agent's Sales Journal, 2010.
- 22 Christina Pellett, Life Settlements Poised for 'Natural Growth,' but Producers Still Lacking in Education, Agent's Sales Journal, 2010.



Appendix A: Survey Sources and Sampling Methodology

All survey resources used in this research review are listed below. For more information on the sampling methodology, please visit www.insurancestudies.org, or call Christopher Kampa at 612-746-6113.

ISI Survey #1

Conducted in partnership with Golden Gateway Financial

Date: May 26th, 2009
Scope: Senior Citizens Nationwide
Research Firm: United Sample, Inc.
Survey Size: 500
Margin of Error: 1.91%
Qualifiers of Survey Respondents: Ages 65+

ISI Survey #2

Conducted in partnership with University of Minnesota Carlson School of Business

Date: November 18th, 2009
Scope: Senior Citizens Nationwide
Research Firm: MarketTools, Inc.
Survey Size: 257
Margin of Error: 2.66%
Qualifiers of Survey Respondents: Ages 65+
Average Household Income of \$150,000+
Must have (or have held) a life insurance policy
Life Insurance policy must be worth \$100,000

ISI Survey #3

Conducted in partnership with Golden Gateway Financial

Date: April 7th, 2010
Scope: Senior Citizens Nationwide
Research Firm: United Sample, Inc.
Survey Size: 218
Margin of Error: 2.89%
Qualifiers of Survey Respondents: Ages 70+
Must have (or have held) a life insurance policy
Life Insurance policy must be worth \$50,000

Report to the Society of Actuaries Life Settlements Survey Subcommittee

Date: January, 2010
Scope: U.S. Life Insurers and Reinsurers
Survey Size: 19 Life Insurers and 4 Reinsurers

Government Accountability Office's Survey of Licensed Life Insurance Settlement Providers

Date: July, 2010
Scope: Life Insurance Settlement Providers licensed in two or more states
Survey Size: 49 Life Insurance Settlement Providers, with 25 responding.

5th Annual Life Settlement Market Survey (Conducted by the Agent's Sales Journal)

Date: February 24th, 2010
Scope: Licensed Life Producers Nationwide
Research Firm: MarketTools, Inc.
Survey Size: 340+
Margin of Error: 2.32%

ISI Interviews of Insureds who have Lapsed or Surrendered Life Insurance Policies

Date: May 6th, 2010
Scope: Senior Citizens Nationwide
Research Firm: United Sample, Inc.
Survey Size: 10
Margin of Error: 2.89%
Qualifiers of Survey Respondents: Ages 70+
Must have (or have held) a life insurance policy.
Life Insurance policy must be worth \$50,000 or more.
Must have lapsed or surrendered a life insurance policy.

Appendix B: Important Statistical Findings

Primary Purpose for Purchasing Life Insurance

73% – Provide for Beneficiaries
11% – Investment/ Savings
10% – Pay off Debts Upon Death

Termination of Life Insurance Policy

40% – Seniors have lapsed or surrendered a life Insurance policy
37% – Wanted to use the cash for other things
30% – No longer needed it
23% – No longer wanted to pay the premiums
\$21.0 Trillion – Individual life insurance sold from 1995 to 2008
\$9.2 Trillion – Amount of individual life insurance terminated without paying a death benefit from 1995 to 2008

Awareness of Life Insurance Settlements and Impact of Financial Crisis

80% – Of seniors own life insurance
49% – Of senior claim to be familiar of the life insurance settlement option
16% – Of seniors claim to be very familiar with the life insurance settlement option
60% – Of seniors are concerned that their current savings will not be sufficient to sustain them through retirement
30% – Of seniors are considering returning to work in some capacity because of the current financial crisis

2010 Society of Actuaries Survey

50% – Of life insurers plan to terminate agents for participating in life insurance settlements
33% – Of life insurers said they will consider rescinding policies if they are sold

