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5 things about life settlements

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January 26, 2010: 6:11 AM ET

(Money Magazine) -- **1. Your parents may be getting sold on these**

In some retirement hot spots, such as South Florida, advertising for "life settlements" is ubiquitous. The pitch? Sell us your permanent (cash-value) life insurance policy and you can have a chunk of the death benefit now. In exchange, the company buying the policy becomes the owner and beneficiary and gets the full payout when you die.

Most settlement firms want policies likely to pay off within 10 years, so the elderly are prime targets. For those who anticipate running out of money, it's an appealing idea.

You'll probably hear this sell more often in the coming years: Wall Street is turning pools of insurance policies into tradable securities (as it did with mortgages), which will increase investor demand.

2. It's hard to know a good deal from a bad one

The life settlement industry is run by small investment firms, and there isn't a central marketplace to solicit bids. So there's no "going rate." A 70-year-old man with high blood pressure and heart disease could get offers from $116,000 to $162,000 for a $1 million policy, reports broker Golden Gateway Financial (compared with about half that if he surrendered it to the insurer). Thus, it pays for anyone considering a settlement to get several bids.

3. Brokers help obscure the process

Since many settlement firms won't deal with consumers directly, shopping around t ypically means going to one or more brokers. But brokers' fee structures vary widely -- from 1% of the death benefit to 15% of the difference between the offer and the policy's surrender value -- and they're not always transparent. That makes it tricky to compare offers, says Connecticut insurance commissioner Thomas Sullivan. So ask for the offers minus all charges.

4. Your insurer hates them

Insurance companies assume some policyholders will stop paying premiums -- meaning the firms will have to foot only a small surrender value, vs. a big death benefit. Since investors make good on policies that might otherwise lapse, insurers pay more death benefits, which makes them

none too happy.

That's led many insurers to sweeten the payout for surrendering. Some even let you partially cash out but keep the policy active at a lesser death benefit. It's worth asking the insurer what it could do for you, and weighing that against settlement offers.

5. There are alternatives

Before taking a settlement, "you have to ask, 'Who will go unprotected if this policy is sold?' " says Steven Weisbart of the Insurance Information Institute. If it's your parents who can't bear the premiums, you m ay want to help. It'll be worth your investment if you stand to inherit, or if keeping the policy in force means you won't be financially supporting Mom when Dad passes on.

If your folks just need money but still could benefit from the policy, help them consider other options, such as selling their home or taking out a reverse mortgage.