

What if...

My business has an unneeded life insurance policy

Many business owners, for whatever reason, find that life insurance policies that once met their business needs no longer do. Traditionally, these people have had only two options: lapse the policy with nothing to show for the premiums that they have paid, or if the policy had cash value, a business could surrender it for the cash value, often for a lot less than the premiums paid into the policy. Now there is a third alternative: a life settlement.

A life settlement is a transaction where the owner of an unneeded life insurance policy sells the policy for an amount greater than the cash surrender value of the policy. A life insurance policy can become a very valuable asset that actually has a fair market value.

Generally, the insured needs to be at least age 65 years or older and have had a change in health since the policy was purchased. There are now financial institutions that will buy these policies, become the owner and the beneficiary of the policy and write what could be a substantial check to the existing policy owner for this to happen. Not only can this be a viable alternative for individuals but also for businesses that own life insurance policies that for whatever reason are no longer needed.

There are many things that can cause a life insurance policy to be no longer needed: the policy has not performed the way it was projected to perform originally; the policy was bought to cover a loan or credit loan and the loan has been paid off; the premium has become too expensive; due to other circumstances, the policy is no longer needed for estate taxes; if the policy was originally bought for a business need, the need could have changed or gone away. We see this happen when a policy might have been bought in the case of the death of a key employee or to fund a buy/sell agreement.

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Whether your business owns a term, universal, or whole life insurance policy, you may very well feel that your policy is no longer needed. A life settlement can be a very attractive alternative. Before entering into a life settlement, you should consult your attorney and/or your CPA. Also make sure that the broker has your best interests at heart, not just theirs. Make sure that you shop your policy to several potential buyers and always make the broker show the offer they received in writing.

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