

Buckeye Life Resources

Life Settlement Fiduciary

Keep

vs.

Sell

comparison

Even when the proceeds of a life settlement dwarf what a policy owner would otherwise receive from the carrier in a lapse or surrender scenario, it's human nature for the seller to dwell on the full death benefit that's foregone as part of the sale (as well as the cumulative premiums that have been paid into the policy).

A purely rational analysis, however, is forward-looking without regard for sunk costs (i.e., paid premiums) and centers on how the *future costs and benefits* of each option compare while accounting for the time value of money. Based on reasonable estimates, will the policy owner fare better economically by keeping or selling the policy?

Look forward >>>

Given the unknowns associated with life insurance, there may not be a definitively right answer to the keep-or-sell conundrum when a sale is contemplated, but thoughtful consideration of the projected tradeoffs is part of any informed decision.

See the attachment for an example of a keep-versus-sell evaluation.

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Keep-versus-Sell Analysis

Buckeye Life Resources

Case Name: - - -

| | |
|---|----------------------|
| Death benefit (DB): | \$1,000,000 |
| Life settlement offer (net proceeds to seller): | \$300,000 |
| * Assumed rate of return: | 5% |
| ** Indifference year: | ≈ 4 |
| Insured's median life expectancy (LE): | 6.5 years |

- - - **S e l l** - - -

- - - **K e e p** - - -

| | Year / LE | Sale Proceeds | Premium Savings | Total | DB (less premiums) | Projected Premiums |
|---|-----------|---------------|-----------------|----------------|--------------------|--------------------|
| K | 1 | 315,000 | 78,750 | 393,750 | 925,000 | 75,000 |
| E | 2 | 330,750 | 161,438 | 492,188 | 850,000 | 75,000 |
| E | 3 | 347,288 | 248,259 | 595,547 | 775,000 | 75,000 |
| P | 4 | 364,652 | 339,422 | 704,074 | 700,000 | 75,000 |
| | 5 | 382,884 | 435,143 | 818,028 | 625,000 | 75,000 |
| S | 6 | 402,029 | 535,651 | 937,679 | 550,000 | 75,000 |
| E | 7 | 422,130 | 641,183 | 1,063,313 | 475,000 | 75,000 |
| L | 8 | 443,237 | 751,992 | 1,195,229 | 400,000 | 75,000 |
| L | 9 | 465,398 | 868,342 | 1,333,740 | 325,000 | 75,000 |
| | 10 | 488,668 | 990,509 | 1,479,177 | 250,000 | 75,000 |

* **Assumed rate of return:** The return the policy owner might reasonably expect while investing elsewhere.

** **Indifference year:** The estimated point of economic indifference between keeping or selling the policy. Prior to this point, the policy owner would fare better economically by keeping the policy. After this point, s/he would benefit by selling the policy.

Disclaimer: The foregoing estimates and explanations are rendered by Buckeye Life Resources on a best-efforts basis for illustrative and educational purposes only. Life settlement valuations are inexact, stemming from third-party inputs and other assumptions that may change or lack validity. Anyone who relies on this information assumes full responsibility for its use.