

Buckeye Life Resources

Fiduciary-minded life settlement brokerage

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 fixate 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.

<<< **not back**



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.