"CASH SURRENDER VALUE" VS. "FAIR MARKET VALUE" WHEN IN DOUBT, GET IT APPRAISED

Consumers who have purchased a "permanent" life insurance policy — such as whole life or universal life — are familiar with a distinctive number on their regular account statements from their insurance carrier. Unfortunately, many people are confused about what this number truly means...and even worse, many of their financial advisors are unaware of important information they need to place its value in its proper context.

Understanding Cash Surrender Value

The number I am referring to is Cash Surrender Value (CSV). Cash surrender value refers to "the sum of money an insurance company pays to a policyholder or an annuity contract owner in the event that his or her policy is voluntarily terminated before its maturity or an insured event occurs," according to Investopedia. "This cash value is the savings component of most permanent life insurance policies, particularly whole life insurance policies. It is also known as 'cash value,' 'surrender value' and 'policyholder's equity'."

In other words, CSV is the cash that an insurance company will pay to a policy owner for terminating the policy and relinquishing his beneficiaries' claims to the benefit that they would have received upon the insured's death. The amount of this cash payout will change from year to year based on premiums paid, interest earned, the cost of insurance charges determined by the life insurance company, and other various carrier imposed fees.

As we have discussed in previous articles, receiving the cash surrender value can be very tempting if the policy owner no longer wishes to continue making annual premium payments. It is a guaranteed and immediate cash transfer into a designated bank account - sign some papers, terminate the policy and the carrier will issue the CSV check.

The problem is that cash surrender value has no correlation to the only way of properly evaluating the value of a life insurance asset – Fair Market Value (FMV). Most consumers associate this metric with other assets, such as houses and jewelry, but rarely apply such association to a life insurance policy.

Understanding Fair Market Value

Fortunately, FMV has a common understanding because it is a mainstream term that is clearly defined by the Internal Revenue Service. According to the IRS regulations, "[T]he fair market value is the price at which (1) the property would change hands between a willing buyer and a willing seller, (2) neither being under any compulsion to buy or to sell, and (3) both having reasonable knowledge of relevant facts."

So how does this definition apply to the challenge of determining the FMV of an asset like a life insurance policy? It means that the policy needs to be exposed to an open market consisting of qualified potential buyers, as part of a no-pressure and no-obligation process, and that both the owner and prospective buyers both have full knowledge of the facts related to the policy and its value.

The FMV of a life insurance policy is determined by the current market conditions of supply (number of policy owners seeking to sell their policies) and demand (number of investors interested in buying policies), but there are a few common variables that influence how much cash a policy is worth to prospective buyers:

- **Death Benefit** — the amount an investor will receive at the death of the insured;
- **Cost** — the amount of premiums that will be paid until the insured dies; and
- **Life Expectancy** — the number of years the insured is expected to live (i.e., how long those premiums will need to be paid) based on the statistical average.
- If an investment fund can earn an attractive return on the purchase of a policy, it will offer to buy the policy for an amount that is greater than the CSV; in some cases, the payout could be multiple times higher than the CSV offered by the insurance company.

How Do You Know the True Value?

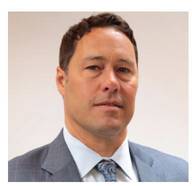
So how is the true market value of a life insurance policy determined in order to learn whether the CSV or the FMV is the best financial option?

The only practical way to arrive at the FMV for a life insurance policy — based on the three considerations contained in the IRS definition above — is to work with a professional firm who has a fiduciary duty to act in the policy owner's best interest and will gather and present relevant facts about the asset to buyers and sellers. With life settlement transactions, the only fiduciary duty as described above, according to state regulations, is fulfilled by a licensed life settlement broker.

Life settlement brokers take policies to the open market of qualified and licensed life settlement providers and share information to policy owners in an honest and ethical manner. The FMV of any policy is determined in real-time as the competitive marketplace determines what the policy is worth, from the first bid to the final bid.

Before a policy owner even explores the market, the prudent course of action is for him or her to receive an objective

appraisal of the policy's value. Welcome Funds prepares a no-cost, no-obligation pre-market pricing valuation for each insurance policy, using its proprietary technology and leveraging more than 20 years of experience in the industry. This confidential assessment provides immediate insight into whether the policy is likely to command offers and whether the FMV is likely to exceed the CSV.



Written by
John Welcom
***Founder & CEO / Welcome Funds Inc*.**

ABOUT WELCOME FUNDS

Past two decades, Welcome Funds has served in the best interest of policy owners by maximizing life settlement offers through auction based negotiations with the top buyers in the secondary market. When buyers compete, your clients win!

26,000+ Offers Negotiated

$825+ Million Paid to Consumers

12+ Average # of Bids Per Policy

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