

Seniors get paid to let investors buy insurance on their lives

By Marc Lifsher, Los Angeles Times (3/9)



LOS ANGELES - Robert Mannheim was stunned when he found out that strangers wanted to lend his mother in West Los Angeles money to buy her a \$2-million life insurance policy and pay her premiums.

The deal got better after two years: She would sign over her death benefits to investors and collect \$200,000.

The idea of leveraging the value of her newly acquired insurance into a big cash payoff tickled Selma Mannheim, a child of the Great Depression, who knows the importance of having money in the bank. "I have no complaints because it did not cost me anything," she said.

Selma Mannheim is one of a growing number of older Americans and their relatives who are taking advantage of a booming life-settlement industry that involves buying, selling and profiting from life insurance policies.

Not everyone is enchanted with the idea of selling such policies to faceless investors.

"You ought to know who you sell to. You don't want Tony Soprano buying your life insurance policy," said Newport Beach attorney Jay Adkisson, who writes about financial fraud on an Internet blog called quatloos.com. "I don't like the idea of people growing life insurance like so

many crops."

These agreements also have riled insurance companies and threatened their profits.

Investing in people's lives and collecting on their deaths is now a booming enterprise. As investors began to pool these investments and

sell them as a package, these securities soon attracted hedge funds, pension funds and institutional endowments.

Battles over these new securities are looming in state capitols and courtrooms, including Sacramento, where the state Senate Banking, Finance and Insurance Committee is looking into this growing and largely unregulated market.

"Enticing seniors with offers of free cash to allow the purchase of life insurance on their lives for the benefit of third-party investors is wrong and apparently not currently illegal in California," committee Chairman Michael Machado said. He thinks state regulation is overdue.

The face value of policies purchased for the secondary market rose to \$6.1 billion in 2006 from \$2 billion in 2002, according to Conning Research and Consulting of Hartford, Conn. Experts are predicting that market volume could hit \$20 billion this year.

Life-settlement providers stress that these agreements are a boon for elderly consumers and an attractive investment for Wall Street. For years, they contend, life insurance companies have sat back and collected premiums on policies that often never

pay off.

Selma Mannheim, 86, said the money from her life settlement gave her the pleasure of giving money to her three children, five grandchildren and three great-grandchildren.

Her son, Robert Mannheim, a retired tax attorney, said he gave his mother the go-ahead after scrutinizing the proposal brought to him by an investment adviser, who had done similar deals with acquaintances. "My brother and I looked at it and said 'That's a winner!'" he said.

Traditionally, insurance companies have given consumers the option to give up their policies and collect a small sum. But now policyholders can sell to investors for much more money.

As a result, consumers might gain, yet insurance companies still have to pay the policy's full value as a death benefit.

Consumers cannot buy an unlimited amount of life insurance coverage. Insurers set limits, and the amount varies from company to company and is based principally on the person's net worth.

That's why critics of these life-settlement agreements warn that consumers who sell too much of their coverage to investors might not be allowed to buy more insurance if they need it later.

Larry Simon, chief executive of San Diego-based Life Settlements Solutions, a pioneer in purchasing policies for resale on the secondary market, said the risk for investors is minimal. "You always get

the policy paying off. That's the beauty of the asset."

Critics, especially insurers, see these investments as a morbid way to misuse life insurance and its promise of providing family security. The investments also exploit seniors, drain money from their estates and open policyholders to fraud, opponents contend.

California Insurance Commissioner Steve Poizner has taken no public position on life-settlement agreements. However, his department currently is upgrading its Web site to warn senior citizens against being victimized by strangers who offer them "risk-free" life insurance deals.

At least three life-settlement-related lawsuits are pending in state and federal courts in Los Angeles, including one action by CNN talk show host Larry King against a Maryland-based insurance agent, who advised him to buy and almost immediately resell a \$10-million life insurance policy.

And at a San Luis Obispo County senior center, crudely printed fliers recently circulated, telling members that they could get as much as \$50,000 from "investors that want to speculate on our life expectancy."

Barbara Guarena, a San Luis Obispo attorney specializing in senior citizen issues, said the hard sell gives her the willies. "I hate to see seniors make their lives into commodities."