



As Featured On:



Understanding Life Expectancy Evaluations in Life Settlements

Published November 21, 2024

Life expectancy evaluations are a critical component of the life settlement industry, serving as a key factor in determining the value of life insurance policies. To fully appreciate life expectancy evaluations, it is important to understand what life expectancy means, how it is calculated, and why it plays such a central role in life settlement transactions.

What is a Life Expectancy Evaluation?

A life expectancy evaluation provides an analysis of an individual's personal health factors that may affect their risk of mortality at the time of evaluation. This evaluation includes medical records to identify and assess the factors influencing the individual's mortality risk. In life settlement underwriting, the process typically involves examining the insured's medical history, diagnoses, treatments, tests, rehabilitation, follow-up care, and prognosis. The evaluation may include reviews of:

- **Medical History:** Comprehensive analysis of the insured's past and present medical conditions.
- **Lifestyle Factors:** Assessment of habits such as smoking, drinking, diet, and exercise.
- **Current Medical Assessments:** Results from recent medical examinations and tests.

The culmination of these factors is expressed in the form of a life expectancy estimate, typically given in months or years. The estimate is then used to determine the value of a policy in a life settlement transaction.

Importance in Life Settlement Transactions

In a life settlement, an individual sells their life insurance policy to a third party for a lump-sum payment. The life expectancy evaluation is a vital component in this process for several reasons:

Policy Valuation: The life expectancy evaluation directly affects the offer made by the buyer. A shorter life expectancy generally leads to a higher purchase price because the investor is likely to receive the death benefit sooner. Conversely, a longer life expectancy might reduce the offer since the investor must pay premiums for a longer period.

Risk Assessment: Buyers use life expectancy evaluations to assess the potential risk involved in purchasing the policy. Accurate evaluations help investors manage their portfolios by balancing higher-risk and lower-risk investments within their portfolio.

Premium Amounts: Understanding the life expectancy is essential for calculating the total projected premium payments required until the policy matures. This information allows buyers to estimate cash flows and ensure they have sufficient funds to cover these payments.

How Life Expectancy is Calculated

Life expectancy calculations involve complex models and data analysis. The process generally includes:

1. **Data Collection:** Gathering comprehensive medical and lifestyle information from the insured individual.
2. **Statistical Analysis:** Using actuarial tables and mortality data to create a baseline life expectancy estimate.
3. **Medical Underwriting:** Using medical experts to interpret the data and adjust the baseline estimate for the insured's specific health conditions.
4. **Algorithmic Adjustments:** Applying proprietary algorithms developed by life expectancy providers to fine-tune the estimate.

These calculations are continuously refined, incorporating the latest medical research and statistical techniques to improve accuracy.

Conclusion

Life expectancy evaluations play a crucial role in the life settlement industry, providing a foundation for valuing life insurance policies. These evaluations help buyers make informed decisions by assessing risk and potential return. Although the process of estimating a life expectancy is complex, it remains an indispensable tool in the growing field of life settlements.

A clear understanding of life expectancy evaluations can significantly impact the success of life settlement transactions, benefiting both sellers looking to maximize the value of their policies and buyers seeking investment opportunities.



The LifeCap Advantage

LifeCap specializes in providing institutional investors and family offices unparalleled access to longevity-oriented investments through our strategic relationships with leading companies in the secondary market for life insurance.

The LifeCap team has spent more than 20 years working alongside institutions, advisors, and individual investors alike to educate investors about alternative assets, with a focus on longevity-oriented investments.

To learn more about life settlements and how LifeCap can enable you to leverage the potential of the longevity-oriented asset class, schedule a call with us at lifecap.com.