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Late in Life, Finding a Bonanza in Life Insurance

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Marvin Margolis, an 80-year-old Manhattan financial consultant, is looking for investors willing to bet on when he will die.

Two years ago, Mr. Margolis bought a large life insurance policy. Now, he's considering selling it to a group of investors, a deal that should give him as much as \$2 million to enjoy in his final years. In return, the investors will get the policy's \$7 million payout when he dies — which they hope will be soon, so they can stop paying his premiums.

"This is a wonderful opportunity to use my body as an asset," Mr. Margolis said. "I deserve to be able to benefit in some way from my age."

Trading in life insurance policies held by wealthy seniors has quietly become a big business. Hedge funds, financial institutions like Credit Suisse and Deutsche Bank, and investors like Warren E. Buffett are spending billions to buy life insurance policies from the elderly. Other investors are paying seniors to apply for life insurance, lending them money to buy the policies, and then reselling them to speculators.

This nascent market illustrates one way that investors are hoping to make money from a large and wealthy generation of Americans as they reach retirement age. These aging baby boomers and those even older offer both opportunities and risks for many companies, investors and swindlers seeking to capitalize on their final years.

Insurance executives, for instance, say transactions like Mr. Margolis's may cripple their industry and make it harder

for the average senior to buy life insurance in the first place. Insurers are worried because they count on many customers canceling their policies before they die, usually because their children grow up and no longer need the financial protection, their pensions kick in or premiums become too expensive. If far more policies result in payouts, the insurance business becomes much less profitable.

Indeed, industry analysts say they expect the cost of life insurance to rise as companies prepare to pay out more claims.

"If payouts increase, the cost of insuring people is effectively going up, and that will definitely increase the price of policies," said J. David Cummins, a professor at the Wharton School of the University of Pennsylvania.

While that may be the case, many people have come to rely on selling their policies to provide urgently needed money for medical care and living expenses when their bank accounts run dry. However, insurance executives say that the market that has emerged could be ruinous.

"Life insurance is a way for individuals to protect their families," said C. Robert Henrikson, the chief executive of MetLife. "If someone profits from a stranger's death, it stands the whole purpose of life insurance on its head. Anything that disrupts the economic processes underlying this industry will drive the cost of life insurance through the ceiling."

Policies like Mr. Margolis's cause particular concern. It was originally paid for with a loan from speculators who will get their money back, plus a profit, if it is

sold to another group of investors, according to public documents. Even if Mr. Margolis does not sell, the loan will be repaid from the death benefit when he dies.

Such policies are known as speculator-initiated life insurance, or "spin-life" policies. Investors estimate that spin-life policies worth as much as \$13 billion will change hands next year.

The deals are so lucrative that older people are being wooed in every fathomable way. In Florida, investors have sponsored free cruises for seniors willing to undergo physical exams and apply for life insurance while onboard.

For insurers, such cruises are a financial Titanic. Over the next decade, the insurance industry could be forced to pay out unexpectedly more than \$100 billion in death benefits as spin-life policies come to maturity, investors estimate.

In Minnesota, according to lawsuits brought by insurers, an 82-year-old named John R. Paulson bought life policies worth \$120 million from seven companies and resold many of them before insurance companies realized what was going on and sued, saying that Mr. Paulson had lied on his applications.

Life insurance companies, in particular, rely on policies lapsing before the policyholder dies. Last year, for instance, insurance companies reduced their financial exposure by \$1.1 trillion when 19.8 million policyholders stopped paying premiums, according to the Insurance Information Institute. In comparison, the industry paid death benefits on only 2.2 million policies.