Profiting on death

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Investment banks are planning ways to bet on the life and death of individuals with life insurance policies, as described in an article published in the *New York Times* on Sunday.

"The bankers plan to buy 'life settlements,' life insurance policies that ill and elderly people sell for cash—$400,000 for a $1 million policy, say, depending on the life expectancy of the insured person," *Times* correspondent Jenny Anderson reports. "Then they plan to 'securitize' these policies, in Wall Street jargon, by packaging hundreds or thousands together into bonds," to be sold to investors.

Investors will continue to pay out the premiums on the insurance and will collect the payout when the person dies. "The earlier the policyholder dies, the bigger the return." In the example given, if the insurance is for $1 million, it is sold for $400,000, and an investor pays out $100,000 in premiums before the individual dies, the resultant profit will come to half a million dollars.

Of course, the great danger for an investor would be a sharp rise in life expectancy for a particular section of the population. "A bond made up of life settlements would ideally have policies from people with a range of diseases—leukemia, lung cancer, heart disease, breast cancer, diabetes, Alzheimer's," the *Times* notes, to safeguard against the danger of a cure for any one of these.

The process of buying and selling the life insurance of other people already exists (*BusinessWeek* ran a story in 2007 under the headline, "Death Bonds"), but "securitizing" these policies to make investment easy is still in its infancy. Yet the *Times* reports great interest in the possibility. "Our phones have been ringing off the hook," one rating agent is quoted as saying. "We're hoping to get a herd stampeding after the first offering," said an investment banker. Credit Suisse and Goldman Sachs are among the banks taking an interest in the new venture.

The *Times* notes that the market could reach $500 billion, which "would help Wall Street offset the loss of revenue from the collapse of the United States residential mortgage securities market…"

There are several reasons to believe that a new life insurance securitization market—one wit dubbed the resulting securities, "collateralized death obligations"—could be very profitable.

First, with the desperate financial situation facing millions of people, there will inevitably be a large pool of poor or elderly workers who find themselves unable to pay their insurance premiums. They may also be in need of immediate cash to fund mortgage payments, medical expenses or other necessities for themselves or their relatives. As the economic crisis deepens, the willingness of individuals to part with their insurance policies at a low price will increase.

Second, investors will be essentially betting that individuals on average will be dying sooner than anticipated by insurance companies who originally devised the policies—that is, they will be betting that the curve of life expectancy in the population will dip.

Life expectancy in the United States has already begun to stagnate in recent years, particularly in rural areas. While life expectancy grew slightly in 2007, the last year for which numbers are available, this was before the onset of the economic crisis.

The most significant impact of the economic crisis will be a massive lowering in the living standards of the American people. Wages and benefits are being permanently lowered. The ability of sections of the working class to maintain a higher standard of living through debt backed by high housing prices has evaporated, and other forms of credit are also drying up. All of this will inevitably lead to workers dying on average earlier.

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Finally, investors anticipate major cuts in health care spending as the outcome of Obama's "reform" initiatives. After handing out trillions of dollars to the banks, the American ruling class is looking to cut social spending, particularly from Medicare and Medicaid.

As Obama declared in June, "The cost of our health care is a threat to our economy. It is an escalating burden on our families and our businesses. It's a ticking time-bomb for the federal budget. And it is unsustainable for the United States." Behind all the talk of "health care efficiency" and "unnecessary tests," investors are well aware that the principal means of cutting costs is to cut services. The various proposals in Congress have focused in particular on containing the growth in Medicare spending. Government-provided health programs, including Medicare, have been one of the principal spurs for the growth of life expectancy during the 20th century.

The interest in "death bonds," besides its uniquely morbid significance, is symptomatic of a more general phenomenon: the parasitism of the ruling class. One could hardly imagine a more picturesque example of Marx's description of the social character of a ruling class that gets rich, "not by production, but by pocketing the already available wealth of others."

The present global economic crisis is intimately linked to the rise in power of a financial aristocracy that has accumulated its massive fortunes from processes ever more divorced from the production of real value. The growth of the speculative bubble in subprime mortgage backed securities was itself based on the attempt to suck up wealth from those least able to afford it.

The race to develop life insurance securities is only the latest, and by no means the last, gambling racket along these lines.

Government policies over the past year—under both Bush and Obama—have not only failed to limit the dominance of the financial aristocracy, they have in fact strengthened it. The largest banks have increased their monopoly over American finance, and the top executives and traders are anticipating record bonuses this year.

That the financial sector has been recalled to life even as the conditions for the working class deteriorate, even as millions of people are thrown out of their homes and jobs, as schools are shut down and social programs cut, is not accidental; the two processes are directly related.

That they should create a security to formalize this parasitic relationship is only natural.

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