

# INTRODUCTION TO LIFE SETTLEMENTS



## WHAT IS A LIFE SETTLEMENT?

- A life settlement is the sale of an existing life insurance policy on the secondary market to a third party for fair market value.
- The owner sells the policy in exchange for a lump sum settlement that can be higher than the cash surrender value. \*(see page 2)
- The third party institutional investor becomes the owner of the policy, makes premium payments, and collects the death benefit at the insured's death.
- With institutional investors, policies are owned in large blind trusts with other policies. This can help to assure client confidentiality.



## POSSIBLE LIFE SETTLEMENT CANDIDATES

- Individuals age 70 and older.
- Life expectancy of 14 years or less.
- Decline in health from original policy issue.
- Life insurance policies with a net death benefit of \$250,000 or more (no maximum).
- Policy type: Universal Life, Guaranteed Universal Life, Survivorship Universal Life, Variable Universal Life and Convertible Term (Sometimes Whole Life).
- Owner can be an Individual, Trust, or Corporation.
- Premium should be 5% of the Death Benefit (or less) and Cash Surrender Value should be 15% of Death Benefit (or less).



## REASONS WHY YOU MAY WANT TO SETTLE YOUR POLICY

- Insurance is no longer needed and you would like to sell the policy for a lump sum cash payment.
- Term policy is nearing the end of a term period. You can convert to a permanent product and receive, through a life settlement, proceeds for an asset that will terminate if not converted.
- Business is sold or changes are made that result in insurance no longer being needed.
- Policies held within a trust are no longer meeting the original trust plan objectives.
- Funds are required to focus on personal needs such retirement, long-term care insurance, or family emergencies.

# LIFE SETTLEMENTS DISCLOSURE

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- In a life settlement agreement, the current life insurance policy owner transfers the ownership and beneficiary designations to a third party, who receives the death proceeds at the passing of the insured. As a result, this buyer has a financial interest in the seller's death.
- A policy owner should consider the continued need for coverage, and, if the policy owner plans to replace the existing policy with another policy, the policy owner should consider the availability, adequacy and cost of comparable coverage.
- Policy owners considering the need for cash should consider other less costly alternatives.
- When an individual decides to sell their policy, he or she must provide complete access to his or her medical history, and other personal information, that may affect his or her life expectancy. This information is requested during the initial application for a life settlement.
- After the completion of the sale, there may be an ongoing obligation to disclose similar and additional information at a later date.
- Individuals should discuss the taxation of the proceeds received with their tax advisor.
- Valmark Securities supervises all life settlements like a security transaction.
- A life settlement may affect the insured's ability to obtain insurance in the future and the seller's eligibility for certain public assistance programs, such as Medicaid, and there may be tax consequences.
- Valmark and its registered representatives act as brokers on the transaction and may receive a fee from the purchaser.
- A life settlement transaction may require an extended period of time to complete. Due to complexity of the transaction, fees and costs incurred with the life settlement transaction may be substantially higher than other securities.
- Once the policy is transferred, the policy owner has no control over subsequent transfers.
- If you are an investor or a buyer of a life insurance policy then you should be aware that:
  - Investment in a life settlement is highly speculative.
  - Although a substantial profit may be realized, a substantial loss is also possible.
  - The death benefit may never be paid.
  - Additional funds may need to be invested to pay premiums if the insured lives substantially longer than expected.