

Life Plans/GBS Insurance

Life Settlement Brokerage Division

An Introduction to Life Settlements

LIFE INSURANCE AND FINANCIAL NEEDS CAN CHANGE OVER TIME

Many people find that as they reach retirement age, pay off their mortgage or see their children through college, their life insurance has served its primary purpose — to protect loved ones and assets — and is no longer useful. It effectively becomes a “dormant asset.” At this point, the expensive premiums are being directed toward an investment that is under-performing, may no longer be needed or has become unaffordable. In the past, the only choices were to keep paying the premiums, allow the policy to lapse for zero value, or surrender the policy to the insurance company for the Cash Surrender Value.

Today however, there is a relatively new option called a Life Settlement, which allows for senior policy owners to tap previously unrealized value in their unwanted, unaffordable, or underperforming life insurance policies. This asset can now be liquidated for a fair market value and the proceeds redistributed to address the current financial planning goals such as retirement income, charitable giving, more appropriate life insurance, annuity, long-term care, or simply a vacation.

A HIDDEN ASSET

You know the fair market value of most of your assets, but do you know the fair market value of your life insurance policy? It may be worth a lot more than you think.

Life Settlements are a viable new tool used by insurance agents and financial professionals to effectively manage life insurance portfolios for their senior clients. A life insurance policy could be a hidden asset worth more than you ever expected. A Life Settlement can unlock the value of an underperforming, unwanted or unneeded life insurance policy.

WHAT IS A LIFE SETTLEMENT?

A Life Settlement is simply the sale of an existing life insurance policy for an immediate lump sum payment which is usually significantly greater than the cash surrender value offered by the insurance company. A relatively new yet powerful financial planning tool, life settlements allow senior policy owners to convert an existing life insurance policy into cash. In exchange for the payment, the ownership of the life insurance policy and the rights to the death benefit are transferred to the buyer, which is usually a licensed institutional investor. In a typical scenario, a bank or financial institution such as Berkshire Hathaway, Goldman Sachs, UBS or Credit-Suisse to name a few, will purchase the policy, become the new owner and beneficiary, and take over the premium payments. The seller is released from any future premium payments and is free to use the settlement proceeds however they choose.

WHO QUALIFIES FOR A LIFE SETTLEMENT?

Candidates for a Life Settlement should be over the age of 70 with an unwanted or underperforming life insurance policy of \$250,000 or more. Universal Life and Term policies (with conversion rights) generally carry the most value in the secondary market. While some Survivorship and Whole Life policies may qualify they will need to be much larger policies with a death benefit closer to \$1,000,000 or more. The policy can be owned by an individual, a trust, a company or a non-profit organization.

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REASONS TO CONSIDER A LIFE SETTLEMENT

Among the many reasons to consider selling a policy, most involve some sort of change which deems the policy unwanted, unneeded, uneconomical or unaffordable.

When may a Life Settlement be the best option?

- Alternative to surrender or lapse
- Insurance needs change
- Beneficiaries are grown and no longer need the protection
- Premiums no longer affordable
- Need for more appropriate life insurance, annuity or long term care coverage
- Estate planning needs have changed
- Insured is a retiring key-man or selling a company or partnership

LIFE SETTLEMENT CASE EXAMPLES

Sex	Male	Male	Female
Age	79	72	79
Policy Type	Universal	Term	Survivorship
Life Face Amount	\$3,400,000	\$500,000	\$2,000,000
Cash Value	\$180,000	\$0	\$290,000
Life Settlement	\$640,000	\$71,000	\$390,000

WHAT FACTORS DETERMINE THE LIFE SETTLEMENT OFFERS

The most critical factors affecting the payment amount of a Life Settlement include the insured's age, health and the future required premiums. The type of policy, insurance company rating, face value, outstanding loans and cash values are also important. The payout amount is determined by the offer secured from the secondary market, and can vary greatly from case to case.

WHAT IS THE TAX TREATMENT FOR LIFE SETTLEMENT PROCEEDS

We are not tax experts and each client should consult their tax advisor on their own tax situation. However, in general, life settlement proceeds above the cost basis are taxed as capital gains. The cost basis equals the amount of premium paid into the policy minus the actual Cost of Insurance.

THE LIFE SETTLEMENT PROCESS

A Life Settlement transaction usually takes anywhere from 3 to 5 months and is initiated by simply completing a Life Settlement Application. Upon qualifying the case for a life settlement we will obtain information for proper evaluation: illustrations from the insurance company, existing medical records from all physicians seen in the last 5 years and life expectancy evaluation reports are purchased to help determine the value of the policy. Personal information is held in strict confidence and only used for the purpose at hand, which is to represent the seller in the secondary market to obtain the highest possible offer for the policy in the shortest amount of time.

When the information is collected we can properly auction the policy to multiple institutional investors in the life settlement market. Once we have established the highest offers for the policy, based on our knowledge and expertise and through intense negotiation, the seller will be notified by their agent of the highest offer. Upon acceptance of the offer, closing contracts will be provided to finalize the sale (similar to real estate transaction closing documents). There is no obligation to sell the policy and in most states the seller has 15 days from the day payment is received to rescind the transaction.