

LIFE SETTLEMENT DISCLOSURE



- 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.
- Each client's experience varies, and there is no guarantee that a life settlement will generate an offer greater than the current cash surrender value. In such cases, the client can always surrender their policy to the carrier if the coverage is no longer needed. This material is intended for informational purposes only and should not be construed as legal or tax advice or investment recommendations. Consult a qualified attorney, tax advisor, investment professional or insurance agent about the issues discussed herein.
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ADVISOR BRIEFING



LIFE SETTLEMENTS



VALMARK LIFE SETTLEMENTS

THE FOURTH OPTION

A growing number of life insurance policyholders are seeing their annual premiums suddenly double or triple in size. As a result, many have felt compelled to surrender or lapse their policies. Some have recently joined class-action lawsuits against their insurance carriers. However, a fourth option exists, which has the potential to help policyholders recover a portion of their policy's value: a Life Settlement. Advisors may find this fourth option to be the most prudent choice for their clients. This paper explains why.

CARRIERS SUED BY POLICYHOLDERS OVER INCREASED RATES



“Transamerica Sued By Policyholders Over Rate Hikes”

This headline has been making its rounds in the financial media recently. The well-publicized lawsuit comes on the heels of a similar lawsuit against AXA and it’s only a matter of time before a handful of other carriers find themselves in court facing similar complaints.

The controversy stems from announcements in late 2015 by Transamerica and others that they were increasing the expenses assessed against mostly older policies issued in the 1980s and 1990s. In letters to its customers, Transamerica said the rate increases were based “on our current expectations regarding future costs of providing this coverage.” These increases have been significant, soaring to 80% or higher than the original planned premiums on the policies.

¹ These carriers include Banner, William Penn, Voya, and Lincoln Financial.

Why Is This Happening?

The policies at risk for these rate hikes fall into the category of Current Assumption Universal Life policies. These were developed in the 1980s during a period of high interest rates. The earlier versions of these policies had high guaranteed crediting rates, many at 4%.

Insurance carriers make their money on the interest rate spread in the policy and on the cost of insurance rates. For example, if the carrier is crediting a 4% rate to a policy, it needs to generate higher returns than 4% to make money.

In today’s low interest rate environment, the carriers are not only NOT making money on the interest rate spread, they are, in fact, losing money. The result is that carriers have raised cost-of-insurance rates to offset the low interest rates and to attempt to increase their profits on these older blocks of business. **Continued on next page.**



Jon Smith¹, an 83-year-old entrepreneur, had a \$1.3 million Universal Life policy on his life that was owned by a Limited Partnership. The policy was purchased in 1995 when the planned premium was \$13,000. The insurance carrier had unexpectedly increased the cost of insurance on this policy. The new premium to maintain the policy to age 100 was raised to \$95,000—over seven times the original planned premium.

Valmark’s life settlement team worked with multiple providers through a bidding process to negotiate an optimum life settlement offer. This resulted in a total gross offer of \$315,000² (before commissions and expenses).

Policy Type	Universal Life
Death Benefit	\$1,300,000
Cash Surrender Value	\$173,000
Original Planned Premium	\$13,000
Annual Premiums	\$95,264 to Age 100
Life Expectancy	55 to 79 Months
Life Settlement Offer	\$315,000 Gross²

¹Client name has been changed to protect confidentiality. | ²The gross offer will be reduced by commissions and expenses related to the sale.

CARRIERS SUED BY POLICYHOLDERS OVER INCREASED RATES



What Should Advisors Tell Their Clients?

If you have a client at risk, the first step is to have the policyholder order an inforce illustration to ascertain how the specific policy may be impacted. Next, depending on your client’s policy, the carrier will tell you that you have essentially three options:

1. Surrender the policy now or allow the policy to ride as long as possible with the new charges
2. Reduce the face amount of the policy to keep the policy in force as originally designed
3. Increase the planned premiums to keep the policy in force as originally designed

Carriers Won’t Tell You There’s A Fourth Option

What if your client doesn’t need the coverage anymore? This is a great time to reach out to clients who may not need the coverage that was originally purchased to discuss a life settlement option. Some possible candidates for a life settlement include:

- Individuals age 65 and older (age 70+ if female)
- Life expectancy of 14 years or less
- Decline in health from original policy issue

- Life insurance policies with a 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)

The Current Life Settlement Market is Better Than Ever

According to the Life Insurance Settlement Association, the life settlement industry is well positioned for sustained long-term growth. “The future of the U.S. life settlement market has never looked brighter, fueled by demographics trends that offer enormous potential to drive growth,” said Colin Devine, Principal of C. Devine & Associates and a veteran life insurance industry analyst. There are 75 million Baby Boomers retiring, and although there is no single solution to address their financial challenges in retirement, Life Settlements may become a core financial planning tool that may create additional assets to produce retirement income and address their future needs.



Rosa Bowman¹ is a 90-year-old widow who purchased two policies totaling \$2.1 million in 2003 for estate planning purposes. Rosa received a notice from the insurer that annual premiums on the two Universal Life policies would TRIPLE in order to continue coverage on Rosa to age 100. Neither Rosa nor her children were able to afford the new premiums totaling nearly \$143,000.

Valmark’s life settlement team worked with the client’s attorney and multiple providers to negotiate a settlement offer resulting in a total gross offer of \$750,000² for both policies (before commissions and expenses).

Policy Type	Fixed Universal Life	Fixed Universal Life
Death Benefit	\$1,500,000	\$595,000
Cash Surrender Value	\$0	\$0
Annual Premiums Life Expectancy	\$102,189 to Age 100	\$40,595 to Age 100
Life Settlement Offer	\$535,000 Gross²	\$215,000 Gross²

¹Client name has been changed to protect confidentiality. | ²The gross offer will be reduced by commissions and expenses related to the sale.