


The Basics of Life Settlements



AN EDUCATIONAL GUIDE FOR CONSUMERS

The Basics of Life Settlements



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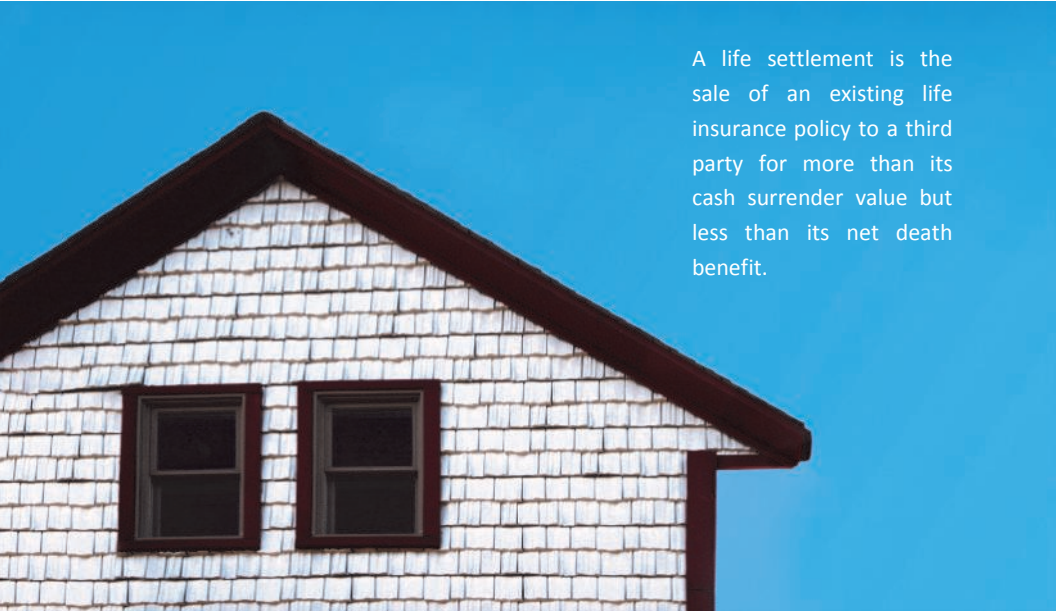
12 Questions and Answers

A Life Insurance Policy A Valuable Asset You Own

As life changes, the assets you own may no longer fit your needs. When the kids grow up and move out, you have the option to sell the house in the city and move to the country. Maybe you can sell the van and buy a convertible. What about your other assets? Can you sell them to buy something that suits your current needs? Yes!

Your life insurance policy is an asset you own. Like all assets, you may keep them for as long as you wish. If your policy no longer serves its original intent, one option is to sell it.

The sale of a life insurance policy is called a life settlement.



A life settlement is the sale of an existing life insurance policy to a third party for more than its cash surrender value but less than its net death benefit.

Through the secondary market for
life insurance policies, you can
benefit from your life insurance

TODAY!





Free Market



Innovation

A life insurance policy is one of the most valuable assets many Americans will ever own. Traditionally, there was only one potential purchaser for a life insurance policy: the issuing insurance company. Under that circumstance, most policy owners found that the only possible "offer" was the policy's cash surrender value set by the insurance company.

Traditionally, policy owners received little, if any, economic value from policies they no longer wanted, needed or could afford. In fact, even today, many policies simply lapse. The value of lapsed policies is enormous. An estimated 90% of all policies issued lapse before paying a claim.

The secondary market for life insurance gives policies liquidity similar to other assets. This liquidity adds to the value of all life insurance for consumers.

Now, market forces ensure that a large percentage of life policies held by seniors are worth significantly more than their cash surrender value. Policy owners can receive, on average, 3 to 4 times the amount of the policy's cash surrender value.



The Life Settlement Industry

Over 8 billion Dollars in
additional income to seniors
in America

In the last 4 years, Life settlements have provided over 8 billion dollars in additional value to seniors in America. Today, the industry is highly regulated, creates additional tax revenue to the US treasury, and employs a sophisticated workforce of thousands of people.



2008

At \$16 Billion , the industry continues to grow at a rapid pace. Sophisticated companies and institutional investors dominate the marketplace. More and more states regulate life settlements. Consumer awareness remains limited. Many seniors miss the opportunity to benefit from the life settlement option.

2005

The life settlement option quickly grows to a \$10 Billion industry. The market is regulated in 2/3 of all states and provides seniors 3 to 4 times more value than the cash surrender option. Many policy owners are still unfamiliar to this market.

2001

The purchase of life insurance policies from senior citizens becomes known as "life settlements". The \$2 Billion life settlement industry now provides consumers fair market value for their unwanted life insurance policies and catches regulatory attention

Late 1990's

Seniors in America discover a new option to exit unneeded life insurance policies. In need of better alternatives, they find the answer in the secondary market for life insurance policies. Consumers over the age of 65 can now sell their unneeded life insurance policy as a lucrative alternative to lapse or cash surrender.

1995

Recognizing the need for industry regulation and professional standards, the Life Insurance Settlement Association is formed to promote the development, integrity and reputation of the industry

1980's

The AIDS epidemic leaves many helpless patients in need of money for treatment. The secondary market for life insurance policy, known as viatical settlement, helps thousands of patients by purchasing their life insurance policies and paying them with much needed cash.

1911

Grigsby v. Russell - Justice Holmes
The U.S. Supreme Court rules that life insurance policies are an asset. Like all assets, policies are freely assignable for value.

Life Insurance Policies have always been informally traded.

How it Works

Candidates for life settlements are typically 65 or older and owns a life policy with a face amount in excess \$100,000. A settlement is only possible when the policy's market value exceeds the cash surrender value.

The key factors determining the market value of a policy are the death benefit, cost of expecting premiums, and the life expectancy of the insured.

Frequently, the life expectancy is the key driver in determining the market value. In simple terms: the lower the premium and life expectancy, the higher the market value.



Application

After choosing proper representation to settle a policy, the policy owner must fill out an application and provide proper documentation, such as policy copies and medical records.

Documentation

The settlement broker or provider will then review the documents. Settlement companies can work with the advisor or directly with the policy owner like you.

Review

The settlement company submits the medical records for review by an independent life expectancy company. Life expectancy companies calculate the probable life expectancy using actuarial and physician experts.

Analysis

At this stage, each settlement firm calculates the market value for their portfolio. Other companies may consider different factors. If the policy has no market value, the process ends.

Offer

Having determined that the policy has market value for a settlement, the provider relays the offer to the policy owner. If the offer is declined, the policy owner can seek other offers from other settlement providers. If working with a life settlement broker, the broker must seek offers from different providers and present all offers to the seller of the policy.

Closing Package

If the policy owner accepts an offer, the provider that made the offer sends a closing package formalizing the transaction. The policy owner must review and sign this package. The funds for settlement transaction are then placed in an escrow account.

Notification

When the signed documents are returned, the insurance carrier is notified of the change of policy ownership to the new owner, the provider.

Funds Transfer

Upon written verification of the change of ownership, the escrow agent releases the settlement payment to the seller of the policy.

What to look for when considering a life settlement?

To ensure that brokers and providers are reputable, check their affiliation with recognized trade groups such as LISA. In defense of the interests of consumers, LISA requires all its members to sign a code of ethics and to recognize standard operating practices.

Life settlements can be complex financial transactions and are generally conducted on behalf of clients by experienced professional advisors. When representing a client, financial professionals have a fiduciary duty to represent the best interests of that client. Compensation for service can be paid by fee or, if licensed, by commission.

Financial professionals also recognize that life settlement regulation varies by state. It is important to find out what regulations regarding life settlements – if any – apply to your state. The key regulations tend to concern licensing rules and whether brokers and providers must provide certain legal disclosures.

The next consideration is whether to work with a life settlement broker or a life settlement provider. It is possible to engage in a life settlement through either option. However, most settlements are conducted through a broker, who can then solicit multiple competitive bids on behalf of the insured. The advantage of working directly with a provider – which is only responsible for its own bid – is that intermediaries are eliminated from the process. The ultimate goal is to obtain the best possible settlement on the best possible terms.

Broker

A person or a firm paid to connect buyers and sellers. Typically, a life settlement broker offers a free policy analysis to determine an estimated market value. The broker works on behalf of the policy owner trying to get the best possible offer from buyers, which may be accepted or rejected by the policy owner.

Provider

A firm specializing in purchasing life insurance policies in the life settlement market. Providers normally raise capital from institutional investors. Providers keep the policies in-force with money from the financing entities. When the insured dies, the provider files a claim with the insurer.

Q&A

Top 5 reasons seniors sell their life insurance policies

- Change in estate planning needs
- The life insurance policy is no longer needed or wanted
- Premium payments have become unaffordable
- Changes in financial and life circumstances (such as divorce, financial hardship, or death of a beneficiary)
- Policy is about to lapse or surrender

Is a Life Settlement an option for me?

Possibly. If you are 65 years of age or older and own a life insurance policy of \$100,000 or more, a life settlement transaction may be an option worth exploring.

Are there any fees or costs involved in a life settlement?

Yes. The costs associated with the sale of a policy are included in the purchase offer. A fee, commission, or other form of compensation is usually paid to the life settlement broker who negotiates a life settlement contract between the policy owner and the life settlement provider.

How long does it take to settle a policy?

Most life settlement transactions take from 4 to 6 months to complete.

How much is my policy worth?

There are four main components determining the value of a life insurance policy:

- The age and medical condition of the insured
- Type of life insurance policy (e.g., universal life, whole life, term)
- Amount of the death benefit
- Amount of premiums necessary to keep the policy in force

Other factors will also weigh in this determination, such as the rating of the issuing insurance company and general market supply and demand.

You should contact several life settlement provider before selling your policy in order to obtain the best offer.

What happens to my life insurance policy after I enter into a life settlement contract?

The ownership rights and obligations under the policy are transferred to the new owner and a new beneficiary will receive the proceeds upon the death of the insured.

What happens to my medical information?

Your medical information is shared by participants in the market. You should discuss this issue when selling your policy with your broker or provider.

Are the proceeds of life settlements taxable?

Life settlement proceeds may be taxable. You should consult your tax adviser for additional information.

Today,
life settlements
provide
seniors over
\$7 Million
a day



Benefiting consumers
aware of their options

You can never be too well informed. Thousands of people are still unaware of this lucrative option.

The life settlement industry is a competitive and efficient market bringing consumers 409%* more cash than the cash surrender option.

On average, if every consumer that settled a policy had opted to surrender that same policy, they would have given up \$304 thousand of additional value per policy.

This loss of value is the reality of thousands of Americans unaware of life settlements. Ask your financial advisor if a life settlement is right for you.

*LISA 2006 Data Collection Report.



Founded in 1995, LISA is a non-profit trade association for members of the life settlement industry and associated businesses. LISA is the oldest, largest, and most diverse association in the business with more than 185 company members. Part of LISA's core mission is to actively represent the interests of consumers, ensuring they have a full range of choice and protection with respect to life insurance.

Since its inception, LISA has been a leader in promoting responsible legislation and regulation of the industry. It has contributed conceptual and detailed language to actual laws governing the industry in most states.

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