



## LIFE SETTLEMENTS

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An alternative to lapsing  
or surrendering policies

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## WHAT IS A LIFE SETTLEMENT?

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- 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 cash surrender value.\*
- 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.

\*Actual offer will be dependent on your particular age and health status, the condition of your life insurance policy, and other requirements of the secondary market at the time of your settlement.



IS YOUR CLIENT A  
CANDIDATE FOR A  
LIFE SETTLEMENT?

## CHARACTERISTICS OF A POTENTIAL LIFE SETTLEMENT CANDIDATE

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- Insured's age is 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)



## PROFILE #1 | DO YOU HAVE A CLIENT WHO...

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**Recently had their insurance premium increase significantly and unexpectedly?**

As a result, they no longer want to pay premiums and would like to surrender the policy for cash.

## WHY ARE PREMIUMS SUDDENLY INCREASING?

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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.



**PROFILE #2 | DO YOU HAVE A CLIENT WHO...**

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**Will likely outlive the maturity  
date on their life insurance policy?**

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# CASE STUDY

## ADDRESSING THE RISK OF OUTLIVING COVERAGE

### THE SITUATION

Mary Wilson<sup>1</sup>, an 87-year-old widow, owned a \$3 million Universal Life policy purchased 11 years ago for the benefit of her three children. When she received a notice that her premiums would more than double to keep the policy in force until age 95, Mary was worried for several reasons:

She would wind up paying another \$600,000 in premiums to keep her policy in force until age 95.

With a life expectancy of 3—5 years, there was at least a 23% chance she would live beyond the maturity of the policy. Consequently, her heirs would not receive any inheritance. Since Mary was uncomfortable with the risk of outliving her policy's coverage, her ValMark Advisor suggested she consider a life settlement as an alternative to paying \$600,000 more in premiums, while still allowing her to leave a sizable legacy to her heirs.

### THE OUTCOME

ValMark's life settlement team worked with multiple providers to negotiate settlement offers resulting in a total gross offer of \$1,225,000<sup>2</sup>.

### SUMMARY

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POLICY TYPE	Universal Life
DEATH BENEFIT	\$3,000,000
CASH SURRENDER VALUE	\$860,000
PLANNED PREMIUM	\$34,332 Policy Will Lapse in 1 Yr.
NEW PREMIUM	\$73,535 To Age 95
<b>LIFE SETTLEMENT OFFER</b>	<b>\$1,225,000 Gross<sup>2</sup></b>

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



PROFILE #3 | DO YOU HAVE A CLIENT WHO...

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**Needs funds for Long Term Care coverage more than their current life insurance coverage?**

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# CASE STUDY

## TAKING THE WORRY OUT OF FUNDING LONG TERM CARE EXPENSES

### THE SITUATION

Maria Smith<sup>1</sup> is a 91-year-old widow who is extremely concerned about the high costs of impending long term care expenses. Her ValMark Advisor suggested a life settlement as a solution for providing immediate funds to help plan for future costs of long term care.

### THE OUTCOME

ValMark's life settlement team worked with multiple providers to negotiate settlement offers resulting in a total gross offer of \$185,000<sup>2</sup> or 37% of the Death Benefit. As a result, Maria accumulated enough funds to cover long-term care expenses for more than two years in a semi-private room in Ohio.

### SUMMARY

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POLICY TYPE	Fixed Universal Life
DEATH BENEFIT	\$500,000
CASH SURRENDER VALUE	\$500
ANNUAL PREMIUMS	\$60,000 to Age 100
LIFE EXPECTANCY	38—50 Months
<b>LIFE SETTLEMENT OFFER</b>	<b>\$185,000 Gross<sup>2</sup></b>

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



**PROFILE #4 | DO YOU HAVE A CLIENT WHOSE...**

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**Estate issues have changed,  
making life insurance unnecessary?**

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# CASE STUDY

## ESTATE TAX CHANGE REMOVES NEED FOR LIFE INSURANCE

### THE SITUATION

Robert Jones<sup>1</sup>, an 88-year-old retired entrepreneur, had several insurance policies originally purchased ten years ago to offset estate taxes on his death. With the recent increases in the estate tax exemptions, there was no longer a need for the insurance coverage. In addition, the original level premium was no longer sufficient to continue funding the policies at a guaranteed level to age 100. Robert did not want to pay the increased premiums.

### THE OUTCOME

ValMark worked with multiple providers to negotiate settlement offers through their auction process, resulting in a total gross offer for both policies of \$975,000<sup>2</sup> or 60% of Robert's total death benefit.

### SUMMARY

	POLICY 1	POLICY 2
POLICY TYPE	Universal Life	Universal Life
DEATH BENEFIT	\$1,200,000	\$400,000
CASH SURRENDER VALUE	\$91,000	\$42,000
LIFE EXPECTANCY	3—4 Years	3—4 Years
<b>LIFE SETTLEMENT OFFER</b>	<b>\$725,000<sup>2</sup></b>	<b>\$250,000<sup>2</sup></b>

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



**PROFILE #5 | DO YOU HAVE A CLIENT WHOSE...**

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**Family situation, such as a divorce or a new addition, requires changes in insurance?**

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# AN OPTIMISTIC OUTLOOK FOR THE LIFE SETTLEMENT MARKET

- Since 2001, Life Settlement transactions have provided more than \$5 billion above the cash surrender value to seniors.<sup>1</sup>
- The growth of the elder age market is increasing the potential market for life settlements. The age 65+ population is expected to increase from 42 million in 2012 to an estimated 70 million in 2030.<sup>2</sup>
- There is \$11.2 trillion (face amount) of life insurance in force.<sup>3</sup>
- We are living much longer. Statistics show that 25% of 65-year-olds will live past age 90.<sup>4</sup> The result is the majority of baby boomers will run out of funds during retirement.<sup>5</sup> The sale of their life insurance policies, in lieu of lapsing or surrendering them, will create additional capital for retirement.

<sup>1</sup>Life Insurance Settlement Association. <sup>2</sup>U.S. Dept. of Health and Human Services, Administration on Aging. <sup>3</sup>American Council of Life Insurers. <sup>4</sup>Wells Fargo Retirement Survey, 2012.

<sup>5</sup>Employee Benefit Research Institute, 2011.



PROFILE #6 | DO YOU HAVE A CLIENT WHO...

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Is an executive who retired and received  
unnecessary insurance through a deferred  
compensation arrangement?

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# CASE STUDY

## KEY MAN POLICY NETS BIG RETIREMENT SUPPLEMENT LIFE SETTLEMENT ENABLES RETIREE TO SELL POLICY AFTER RETIREMENT

### THE SITUATION

Matthew Irvin<sup>1</sup>, an 88-year-old retired executive, owned a \$360,000 Universal Life policy that was originally a Key Man Policy funded by his previous employer. Upon Matthew's retirement, the company had transferred ownership of the policy to him. The policy is considered taxable income based on the value of the policy and resulted in Matthew having to pay approximately \$40,000 in income taxes. In addition to the taxes, Matthew would be responsible for paying an annual premium of \$23,340 to age 100.

Matthew decided he did not want to pay any premiums going forward and planned to surrender the policy and use its cash value to supplement his retirement. Matthew's ValMark Advisor suggested that he consider a life settlement as an alternative to surrendering the policy.

### THE OUTCOME

ValMark's life settlement team worked with multiple providers to negotiate settlement offers resulting in a total gross offer of \$250,000<sup>2</sup> or 69% of the Death Benefit and 2.7 X the Cash Surrender Value. The end result is that Matthew was able to leverage his \$40,000 tax bill into a cash payment of over \$200,000 through a life settlement.

### SUMMARY

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POLICY TYPE	Fixed Universal Life
DEATH BENEFIT	\$360,000
CASH SURRENDER VALUE	\$93,000
ANNUAL PREMIUMS	\$23,340 to Age 100
LIFE EXPECTANCY	26—30 Months
<b>LIFE SETTLEMENT OFFER</b>	<b>\$202,500 Gross<sup>2</sup></b>

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



**PROFILE #7 | DO YOU HAVE A CLIENT WHOSE...**

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**Term policy is nearing the end of a term period?**

The client can convert to a permanent policy and receive, through a life settlement, proceeds for an otherwise worthless asset.

# CASE STUDY

## WIDOW USES LIFE SETTLEMENT TO PAY PREMIUMS ON OTHER POLICIES HELD IN TRUST

### THE SITUATION

Ted Bailey<sup>1</sup>, a 59-year-old entrepreneur, had fallen on hard times during the economic crisis. As a result, he was forced to file bankruptcy to discharge business loans for which he was personally responsible. Ted had a \$1 million term policy which needed to be converted within the next several months. However, he could not afford to pay the premium for a permanent policy.

### THE OUTCOME

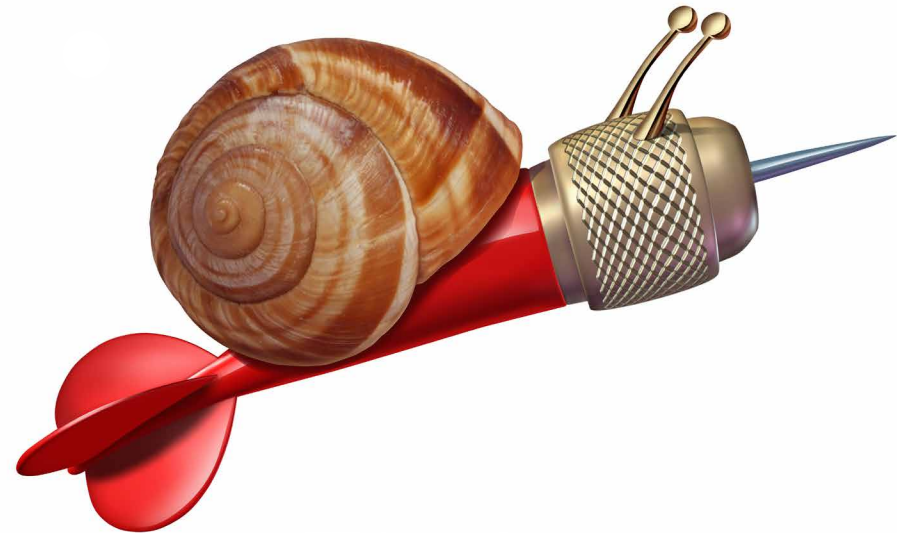
After consulting with his ValMark Advisor, Ted decided to sell \$750,000 of the term policy and retain \$250,000 of term coverage. ValMark worked with multiple providers to negotiate settlement offers resulting in a total gross offer of \$295,000<sup>2</sup> plus reimbursement of the first quarter's premium. The gross offer was 39% of the total death benefit.

### SUMMARY

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POLICY TYPE	Term
DEATH BENEFIT	\$1,000,000 (Sold \$750,000)
CASH SURRENDER VALUE	\$0
ANNUAL PREMIUMS	\$17,800
LIFE EXPECTANCY	3—6 Years
<b>LIFE SETTLEMENT OFFER</b>	<b>\$295,000 Gross<sup>2</sup></b>

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



**PROFILE #8 | DO YOU HAVE A CLIENT WHOSE...**

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**Current policy is underperforming?**

The need for insurance may still exist, but the client wants coverage that has better guarantees.

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# OUR PROCESS 1

The Life Settlement Advocacy Program™ is a step-by-step process designed to guide you through a life settlement transaction and to ultimately provide the highest level of value for a client's policy.

## **STEP 1. EVALUATING A POTENTIAL CANDIDATE**

- The Policy Appraisal Report™ calculates an estimated range of offers for a particular policy.
- The Life Settlement Filter™ gathers information about the insured and the policy. A review of both helps determine the likelihood of receiving life settlement offers.

## **STEP 2. INITIATING THE LIFE SETTLEMENT TRANSACTION**

- The Life Settlement Engagement Agreement™ identifies the commitment between client and advisor and includes full disclosure of how compensation will be calculated.
- The Life Settlement Inquiry™ serves as the formal application and medical authorization required to engage in a life settlement transaction.



**PROFILE #9 | DO YOU HAVE A CLIENT WHO...**

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**Would like to exchange their current policy for a variable one that provides equity opportunities?**

# OUR PROCESS 2

## **STEP 3. GENERATING & NEGOTIATING OFFERS**

ValMark supervises a life settlement transaction as a security, thus it is closely regulated and utilizes a systematic bidding process to ensure the best execution on every transaction.

This process allows sellers to be confident they are receiving fair market value for their policies, and ensures that only institutional providers are eligible to purchase policies through our program.

## **STEP 4. THE CLIENT DECISION**

After the offer process has ended and a single highest offer has been made, the client makes a decision. The ValMark Advisor works with the client to help evaluate their situation, consider all of the options, and determine whether or not a life settlement is truly the right option

## **STEP 5. THE CLOSING & FUNDING PROCESS**

The ValMark Advisor provides step-by-step guidance throughout the closing process, including reviewing sample closing contracts with the client and their other advisors, and assistance with executing the formal policy selling agreement.



**PROFILE #10 | DO YOU HAVE A CLIENT WHOSE...**

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**Policies are not meeting the objectives  
of the Irrevocable Life Insurance Trust (ILIT)  
and need to be replaced?**

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# CASE STUDY

## WIDOW USES LIFE SETTLEMENT TO PAY PREMIUMS ON OTHER POLICIES HELD IN TRUST

### THE SITUATION

Mary Snow<sup>1</sup>, an 89-year-old widow, has a sizable net worth, but it has diminished over the last several years. After meeting with her ValMark Advisor, they determined she needed additional liquidity to pay the premiums on her other policies held by the family trust. Mary wanted to assure that the inheritance planned for her family and charities would remain intact. One of the policies Mary owned was a \$6 million Universal Life policy with a cash surrender value of approximately \$93,000.

### THE OUTCOME

ValMark worked with multiple providers to negotiate a settlement resulting in a total offer of \$1,565,000<sup>2</sup> – 26% of the policy's death benefit and 16 X the cash surrender value, plus reimbursement of the first quarter's premium.

### SUMMARY

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POLICY TYPE	Universal Life
DEATH BENEFIT	\$6,000,000
CASH SURRENDER VALUE	\$93,000
LIFE EXPECTANCY	43—67 Months
<b>LIFE SETTLEMENT OFFER</b>	<b>\$1,565,000 Gross<sup>2</sup></b>

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



**BUSINESS  
FOR SALE**

PROFILE #11 | DO YOU HAVE A CLIENT WHOSE...

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Business is being sold, or is going through changes that will result in insurance no longer being needed?

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# CASE STUDY

## LIFE SETTLEMENT ENABLES BUSINESS TO ADJUST INSURANCE COVERAGE TO ACCOMMODATE CHANGING NEEDS

### THE SITUATION

Larry West,<sup>1</sup> a 60-year-old physician, had a \$1.5 million term policy on his life that was owned by the medical group where Larry was one of two corporate officers. Their practice had overcommitted funds to purchase expensive medical equipment. As a result, the practice lacked the funds to maintain the policy as well as cover the practice's day-to-day operations. Larry was also suffering from cancer that shortened his life expectancy to 82 – 84 months.

Instead of allowing the entire policy to lapse, the partners consulted their ValMark Advisor and decided to retain \$750,000 of the coverage and sell \$750,000 on the secondary market. This would provide immediate working capital for the practice, while still maintaining some insurance coverage on a key executive.

### THE OUTCOME

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 \$202,500<sup>2</sup>.

### SUMMARY

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POLICY TYPE	Term
DEATH BENEFIT	\$750,000
CASH SURRENDER VALUE	\$0
LIFE EXPECTANCY	82—84 months
<b>LIFE SETTLEMENT OFFER</b>	<b>\$202,500 Gross<sup>2</sup></b>

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



**PROFILE #12 | DO YOU HAVE A CLIENT WHO...**

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**Has made changes within their Buy-Sell Agreement which makes insurance no longer necessary?**

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### THE SITUATION

James Green<sup>1</sup>, a 67-year-old business owner, was diagnosed with colon cancer. His business partner was his sister-in-law and there had been a contentious historical relationship. The need for cash outweighed the need for the future death benefit.

James owned a \$250,000 universal life policy that was originally obtained for income protection, which he no longer needed since he had retired from the business. The policy had a small loan on it and James no longer wanted to pay the premium and interest due on the loan. A life settlement to create additional capital to pay the premiums on a larger policy was recommended.

### THE OUTCOME

ValMark worked with multiple providers to negotiate a gross offer of \$113,000<sup>2</sup>.

### SUMMARY

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POLICY TYPE	Universal Life
DEATH BENEFIT	\$250,000
CASH SURRENDER VALUE	\$12,651
ANNUAL PREMIUMS	\$4,594
POLICY LOAN	\$33,206
LIFE EXPECTANCY	7—13 Years
<b>LIFE SETTLEMENT OFFER</b>	<b>\$113,000 Gross<sup>2</sup></b>

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



PROFILE #13 | DO YOU HAVE A CLIENT WHOSE...

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**Charitable-owned policies are under-performing and need to be replaced in order to preserve the benefit to the charity?**

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## SIX QUESTIONS TO CONSIDER | WHEN EVALUATING A LIFE SETTLEMENT BROKER

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1. Does the broker supervise the life settlement transaction as a security?
2. Are the company's funding sources exclusively institutional? Are they licensed in your state?
3. Does the company work with several different licensed life settlement providers?
4. Does the company negotiate offers through a formal, written bid process?

5. Is the company's compensation uniform and capped with all providers?
  6. Are both the offers and the total compensation fully disclosed?
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If you answered “no” to any of these questions, your life settlement transaction may be at risk. Consider contacting a ValMark Advisor to discover how our professional advocacy can make a difference in the quality of offers you receive and the safety of the transaction.



## **IMPORTANT INFORMATION ABOUT YOUR LIFE SETTLEMENT BROKER**

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ValMark Securities and its registered representatives act as brokers in the life settlement transaction and may receive a fee from the purchaser. A life settlement transaction may require an extended period of time to complete. Due to the complexity of the transaction, fees and costs incurred with the life settlement transaction may be substantially higher than other securities. Neither ValMark Securities nor its registered representatives provide tax advice. ValMark Securities supervises a life settlement like a security transaction. Securities offered through ValMark Securities, Inc., Member FINRA, SIPC.

A background image showing the silhouettes of several people sitting around a table in a meeting or office setting, viewed from behind. The scene is dimly lit, with light coming from windows or screens, creating a professional and collaborative atmosphere.

## IMPORTANT INFORMATION ABOUT THE LIFE SETTLEMENT PROCESS

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In a life settlement arrangement, 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. 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. A life settlement may affect the seller's eligibility for certain public assistance programs, such as Medicaid, and there may be tax consequences. Individuals should discuss the taxation of the proceeds received with their tax advisor. Individuals considering life settlements should carefully read the entire sales agreement, consult their advisors, and consider all available options before selling their policies.