The Basics of Life Settlements

AN EDUCATIONAL GUIDE FOR CONSUMERS

LISA® LIFE INSURANCE SETTLEMENT ASSOCIATION™

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The Basics of Life Settlements

LIFE INSURANCE SETTLEMENT ASSOCIATION™

A Life Insurance Policy

A Valuable Asset You Own

Life Insurance holds an important place in a financial plan. As life changes, these careful plans are adjusted to accommodate current needs and priorities, and plan changes might include adjustments to life insurance coverage.

Financial priorities may shift, leaving insurance coverage less affordable. Or perhaps your assets are being drawn down to pay for more immediate needs. The original need for coverage may no longer exist.

A life insurance policy is a valuable asset. It provides benefits beyond the insured's lifetime. However, benefit can be also be realized during the insured's lifetime. Like any asset that is personal property, life insurance can be sold.

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. In a life settlement, the policy's owner transfers ownership of the policy in exchange for an immediate cash benefit or, in some instances, a reduced interest in the death benefit for the policy's beneficiaries.

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

A life insurance policy is one of the most valuable assets many Americans will ever own. However, prior to the life insurance secondary market 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 which often was far below the policy’s market value.

The secondary market for life insurance creates liquidity for policies similar to other assets. For insureds 70 and older, this market’s liquidity and other factors may generate values for a large percentage of life policies significantly greater than the cash surrender value. On average, policy sellers receive 4-7 times the amount of the policy's cash surrender value.

Free Market

+

Innovation

The Life Settlement Industry

Over $5.62 billion paid over cash surrender value

According to a 2010 US GAO study, US policy owners received $5.62 billion more than the policy cash surrender values from life settlements from 2006-2009. Today, the industry is highly regulated, provides tremendous value for consumers, creates additional tax revenue to the US treasury, and employs a sophisticated workforce of thousands of people.

1911 – Grigsby v. Russell – The U.S. Supreme Court rules that life insurance policies are an asset. Like all assets, policies are freely assignable for value. For decades after 1911, life insurance policies were informally traded.

2000s – Prior to 2001, only a handful of states contained comprehensive regulation of “life settlements.”

2001 – The National Association of Insurance Commissioners (NAIC) Viatical Settlements Model Act first adopted in 1993 has been amended extensively. Most importantly, it expanded the definition of viator (owner) to include all policy sellers – regardless of their health status. Within a year of passage of both the NAIC and NCOIL Models, over a dozen states would pass laws regulating “life settlements.”

2008 – Since 2008, over 30 new laws have been passed to strengthen consumer’s rights and create a more sound and transparent regulatory structure for market participants.

In November 2010, NCOIL adopted its Life Insurance Consumer Disclosure Model Act. This Act mandates that insurers provide written notice to senior policyowners who are facing the lapse or surrender of their policies. This written notice must clearly state that seniors have options regarding such lapse or surrender, one of which is a life settlement.

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. Prior to LISA’s formation, only 3 states contained regulation of viatical settlements.

2000 – The National Council of Insurance Legislators (NCOIL) adopted its first version of the Life Settlements Model Act.

2007 – In 2007, both NCOIL and NAIC revised their Model Acts extensively. Looking forward, NCOIL’s Life Settlements Model Act and the NAIC’s Viatical Settlements Model Act remain the most popular current forms of regulation nationwide.

2010 – The U.S. Government Accountability Office (GAO) and the U.S. Securities and Exchange Commission (SEC) both released large studies of the Life Settlement Industry recognizing the growth of the life settlement market and, importantly, that life settlements are a valuable alternative to the lapse or surrender of a life insurance policy for American consumers.

Today 41 states and the territory of Puerto Rico contain comprehensive life settlements regulation, as well as 4 additional states that regulate viatical settlements. Moreover, 7 states contain mandated disclosure by insurance companies to consumers noting their options to lapse or surrender.

How to get started

Candidates for life settlements are typically 70 or older with a life policy having 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 expected premiums, and the life expectancy of the insured.

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

Once you have discussed your needs and options with your advisors and decide a life settlement is the best option, you or your advisor should contact a life settlement broker or provider to begin the process.

It is possible to engage in a life settlement through either a broker or provider; however, most settlements are conducted through the policy owner's life agent or advisor and a broker, who can then solicit multiple competitive bids on behalf of the policy owner. The advantage of working directly with a provider – which is only responsible for its own bid – is that intermediaries may be eliminated from the process. The ultimate goal is to obtain the best possible settlement on the best possible terms. Your advisor can help you navigate this process.

Broker

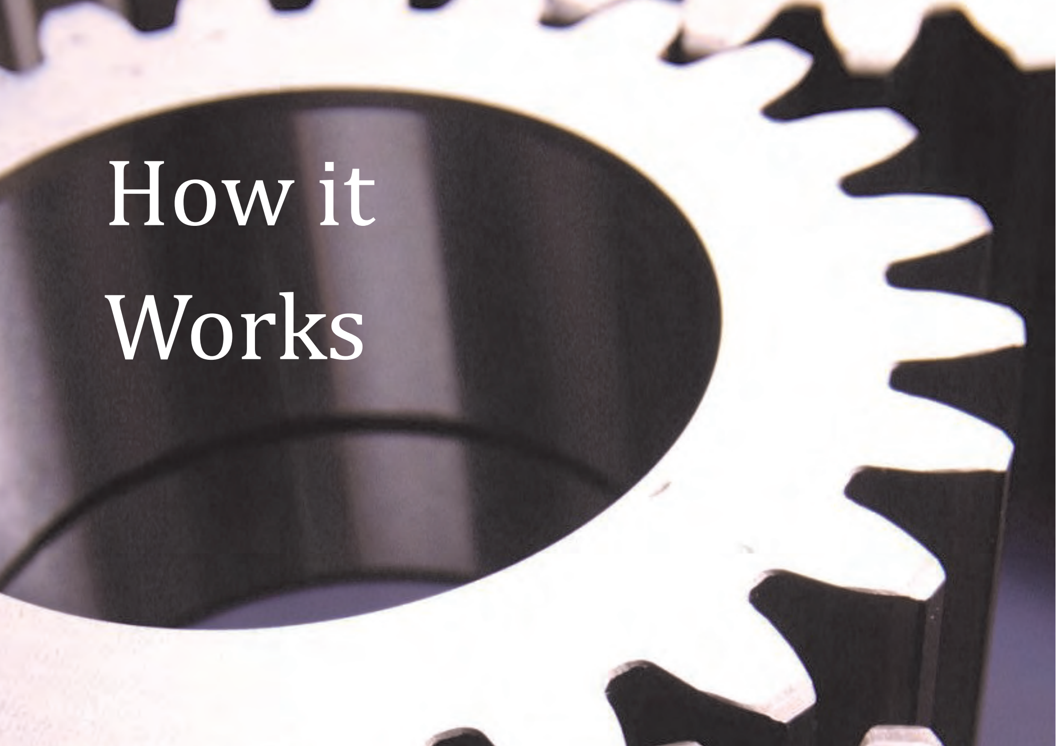
A person or a firm paid to connect buyers and sellers. Typically, a life settlement broker offers a free policy analysis to determine an estimated market value. The broker works on behalf of the policy owner trying to get the best possible offer from buyers, which may be accepted or rejected by the policy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

What to look for when considering a life settlement representative?

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. LISA also has a searchable member database available on our website (www.lisa.org) which includes information related to broker and provider eligibility by state.



How it Works

Life settlements are a regulated transaction in most states. When representing a client, a states' department of insurance may require an advisor or broker be licensed to complete the transaction. Similarly, licensing and forms filing requirements may apply to providers representing investors in the purchase of a life insurance policy.

To ensure that an individual or company is properly licensed to conduct life settlement business in your state, LISA recommends you check with your state insurance department .

Application

After choosing proper representation to settle a policy, the policy owner must fill out an application and provide policy, ownership and insured information including a list of physicians and/or medical records for underwriting. A proper application should include an authorization to release the insured's medical information (HIPPA) and an authorization to release non-public financial information requiring both the owner's and the insured's signature. If it is not included, request a copy of the firm's privacy policy.

Underwriting

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.

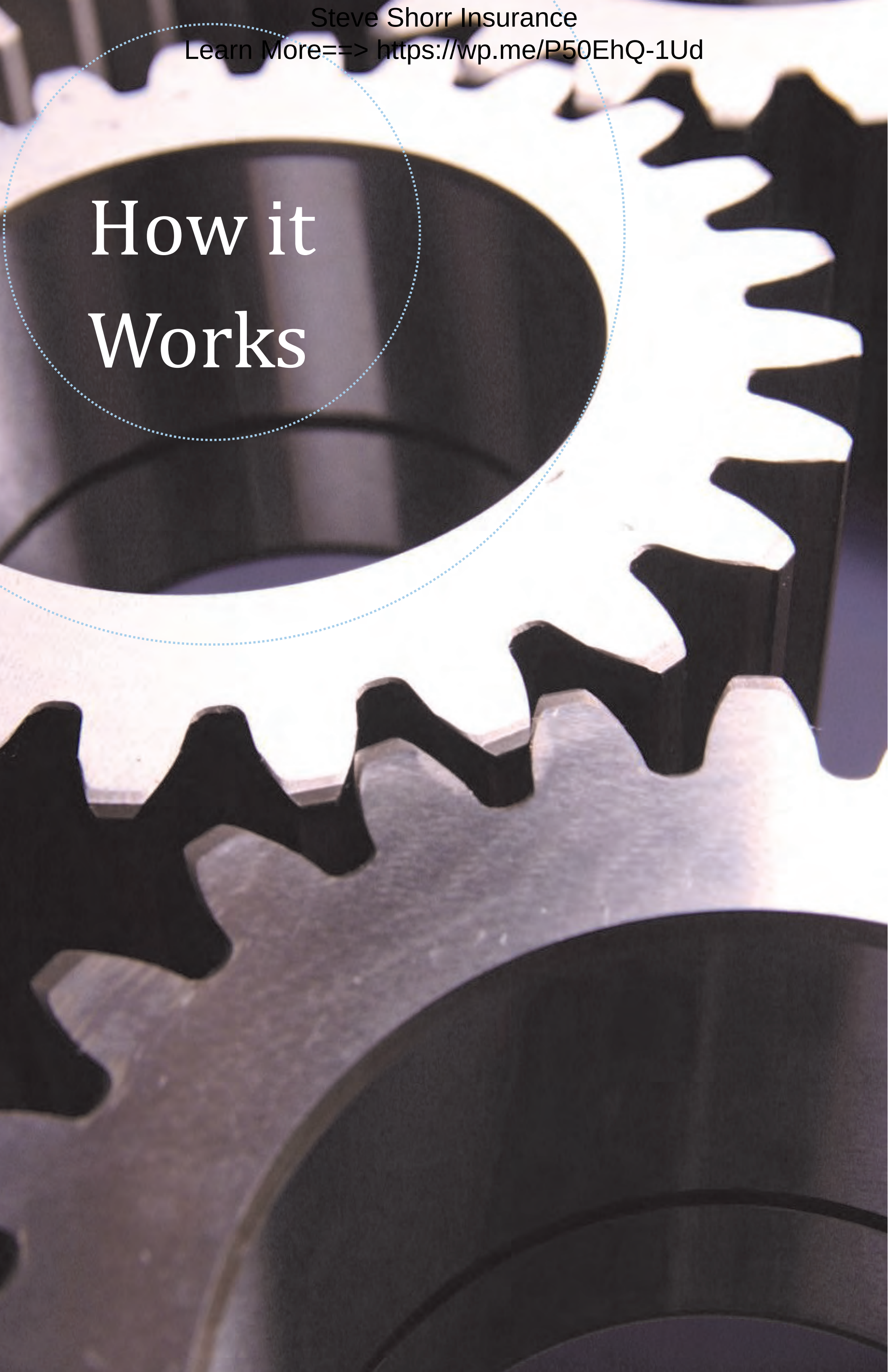
Analysis

Each life settlement provider/buyer calculates the market value for the policy presented for sale. Companies may consider different factors when valuing a policy including contract specifics such as premium expense, death benefit and carrier ratings and insured information such as age and life expectancy underwriting.

Offer

The provider/buyer will either decline or extend an offer to the policy owner or broker. A broker will seek competing offers from other providers/buyers. The policy owner can accept or decline any offer.

How it Works



Purchase and Sale Agreement

If the policy owner accepts an offer, the provider that made the offer will prepare a purchase and sale agreement and other documents formalizing the transaction. The policy owner, insured and beneficiaries then sign this package. The provider will review, complete due diligence and countersign the package. The funds for the settlement transaction are then placed in an escrow account.

Notification

The insurance carrier is notified of the change of policy ownership and beneficiary to the new owner, the provider.

Funds Transfer

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

Q&A

Is this option for you?

The owner of an eligible life insurance policy may opt for a life settlement when:

- The life insurance policy is no longer needed or wanted
- Premium payments have become unaffordable
- Considering surrender or lapse of the policy
- Change in estate planning needs
- Change in financial circumstances
- Changes in life circumstances (such as divorce or sale of a business)

Do I qualify for a life settlement?

Possibly. If you are 70 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. A fee, commission, or other form of compensation is usually paid to the life settlement broker and the life agent who negotiates a life settlement contract between the policy owner and the life settlement provider upon completion of the transaction.

How long does it take to settle a policy?

Most life settlement transactions take from 4-5 months to complete.

Q&A

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 utilize a broker's services or solicit multiple providers 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?

A provider or broker may not share any financial, medical, or personal information about you with anyone, unless you have given written approval to share the information. The provider or broker may share the information with someone who buys the policy or provides funds for the purchase.

Are the proceeds of life settlements taxable?

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

Consumers need to be aware of their options.

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

LISA supports efforts at the National Conference of Insurance Legislators (NCOIL). In 2010, NCOIL passed the Life Insurance Consumer Disclosure Model Act which mandates insurers to disclose options, including a life settlement, when senior policyholders contemplate surrender or lapse of their policy. So far, seven states including California, Kentucky, Maine, New Hampshire, Oregon, Washington, and Wisconsin require disclosure of policyholders' options.

If you feel like you deserve to know your rights and options as they pertain to your life insurance, contact your state representative or senator. If you need help, LISA would be glad to point you in the right direction. This loss of value is the reality that of thousands of Americans are unaware of life settlements. Once you know all of your options, you should contact your own professional advisor, attorney, accountant, financial planner or life insurance agent to help you decide which option is most suitable for your needs .

Established in 1994, the Life Insurance Settlement Association is the oldest and largest trade organization in the life settlement market. Its goal is to advance the highest standards of conduct for market participants and to promote education and awareness to consumers, investors, and public officials. LISA represents more than 100 member firms including 2500 professionals from life settlement brokers, life settlement providers, institutional investors, life settlement servicers, and other service providers.

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