



*National
Marketing
Group*

LIFE SETTLEMENTS

**A GUIDE FOR
PROFESSIONAL ADVISORS**

Life Settlements with a Difference!

What is a Life Settlement?

A Life Settlement is the sale of a life insurance policy to a third party for an amount greater than the cash surrender value. Typically, the sale involves an insured age 65 or older with a policy that is no longer needed, wanted or affordable to an investment company that provides the owner of the policy with a lump sum cash settlement. This secondary market for life insurance contracts provides an alternative to accepting the issuing insurance company's surrender value for the policy.

What are the most common situations for a Life Settlement?

- ✧ **Policy about to be surrendered or lapsed**
 - Premiums too burdensome
 - Underperforming – not meeting expectations
 - No longer needed or wanted
- ✧ **Change in business situation**
 - Business sold or merged
 - Termination or change in executive benefit plan
 - Retirement or departure from business
- ✧ **Change in estate plan**
 - Reduction in the size of estate or estate tax liability
 - Death of a spouse or other intended beneficiary; or divorce
 - Illiquid asset sold
- ✧ **Change in priority of needs**
 - Retirement and/or the need for additional income
 - Post-bankruptcy and/or to pay off debt
 - Need to pay for long term care

How can your clients use the proceeds from a Life Settlement?

- ✧ Investments
- ✧ Supplement income
- ✧ Long term care insurance
- ✧ Create capital for business opportunities
- ✧ Lower debt
- ✧ Provide educational funds and/or current gifts
- ✧ Create capital for charitable giving
- ✧ Pay for medical services
- ✧ Anything – the proceeds are unrestricted

Who are candidates for a Life Settlement?

Insureds most likely to qualify are age 70 or older, or age 65+ with a medical condition and/or a change in health since the policy was issued. The policy should have a minimum death benefit of \$500,000 and be written by a company rated 'A' or better by Standard and Poor's. Generally the cash surrender value should not exceed 30% of the death benefit.

What types of policies can qualify for a Life Settlement?

- ✧ Universal Life
- ✧ Second-to-die
- ✧ First-to-die
- ✧ Term
- ✧ Group, if convertible
- ✧ Whole Life

What is the process to obtain a Life Settlement offer?

The owner of the policy and the insured complete a simple questionnaire, which includes authorizations to obtain medical and insurance information and a disclosure form. In addition, an in-force reprojected of the policy to maturity is required which can be requested from the issuing company. Medical records, generally for the past five years, are obtained. Once LIS has assembled the required data, it employs a unique bidding process designed to draw out the highest offer for the policy.

When an acceptable offer is found, closing documents are prepared. Sign-offs from the insured, owner (if different), and beneficiary are required. The funds are deposited into an escrow account until the insurance company records the change of ownership and beneficiary. When the transfer is complete, the money is wired to the previous owner. The entire process normally takes about four to five months.

What are the tax* implications?

Certain aspects of life settlement taxation are uncertain, however, the IRS has ruled that:

- ✧ The seller's basis is cumulative premiums reduced by withdrawals and cash dividends received
- ✧ Proceeds up to the seller's basis are received tax free
- ✧ Proceeds that exceed basis, to the extent of the cash surrender value, are ordinary income
- ✧ Gain in excess of the cash surrender value receives capital gain treatment.

*LIS does not provide tax or legal advice. Interpretations of tax laws may vary.

Sample Cases

Male age 74 - \$1,000,000 universal life policy with \$63,000 cash surrender value

- ✧ Wife died and coverage was no longer needed
- ✧ Policy was sold for \$265,000
- ✧ Insured/owner bought an annuity with the net proceeds

Female Age 84 - \$550,000 whole life with \$125,000 cash surrender value

- ✧ Insurance purchased 10 years ago to offset estate taxes
- ✧ Combination of reduction in estate tax and slower growth of estate make policy unnecessary
- ✧ Widow needs additional current income and no longer wants life insurance
- ✧ Policy was sold for \$220,000
- ✧ Proceeds used to supplement retirement income

Male age 83 - \$2,000,000 universal life policy with \$120,000 cash surrender value and an annual premium of \$80,000

- ✧ Due to low current interest rates, coverage was projected to lapse in 3 to 4 years at the current premium
- ✧ Policy was sold for \$300,000
- ✧ Using the settlement proceeds, new survivorship coverage with his wife was obtained with a lower annual premium of \$76,000 that was guaranteed to keep the policy in force to age 100

Male age 69 - \$4,000,000 "key man" term policy

- ✧ Insured retired
- ✧ Needed and could afford only \$1,000,000
- ✧ Policy was split and sold excess \$3,000,000
- ✧ Proceeds of \$400,000 used to pay for and convert remaining \$1,000,000

Who is LIS?

The Industry Leader - Life Insurance Settlements, Inc. is one of the largest and most experienced brokers in the country. LIS was founded by pioneers of the life settlements industry who, since 1993, have closed more than 24,000 life settlement transactions. When a sale is appropriate for the policy owner, LIS will negotiate with qualified providers to obtain the best possible offer.

Benefits to working with LIS include:

- ✦ **Professionalism:** LIS is comprised of professionals from the Life Insurance, Life Settlement and Financial Planning industries, most with over 20 years experience. Our expertise will assist you in obtaining and evaluating life settlement offers for your clients.
- ✦ **Better Offers:** LIS gets higher bids and closes more deals because of the negotiating clout we bring to bear as one of the largest life settlement brokerages in the industry and because of our long-term relationships with providers, several of which that are exclusive to LIS.
- ✦ **Full Service:** LIS manages every step of the transaction with complete confidentiality.
- ✦ **Transparency:** LIS provides full transparency and disclosure in all transactions, including a bidding history of all offers received for the policy.
- ✦ **Compliance:** LIS is a member of the Life Insurance Settlement Association of America (LISA) and follows the highest standards in all its transactions, even in states where there is no regulation. Our legal and compliance department rigorously monitors regulatory developments to ensure that all life settlements meet the changing legal and licensing requirements of each state.
- ✦ **Errors and Omissions Insurance:** LIS provides coverage for its contracted life settlement producers.
- ✦ **Monthly Newsletter:** Keeps you current.

“Setting the Standard for Life Settlement Brokerage”



Robin S. Weinberger, CLU, ChFC, CLTC
617-451-3343
rsw220@aol.com



Peter N. Katz, JD, CLU, ChFC
860-673-3642
pkatzlife@yahoo.com