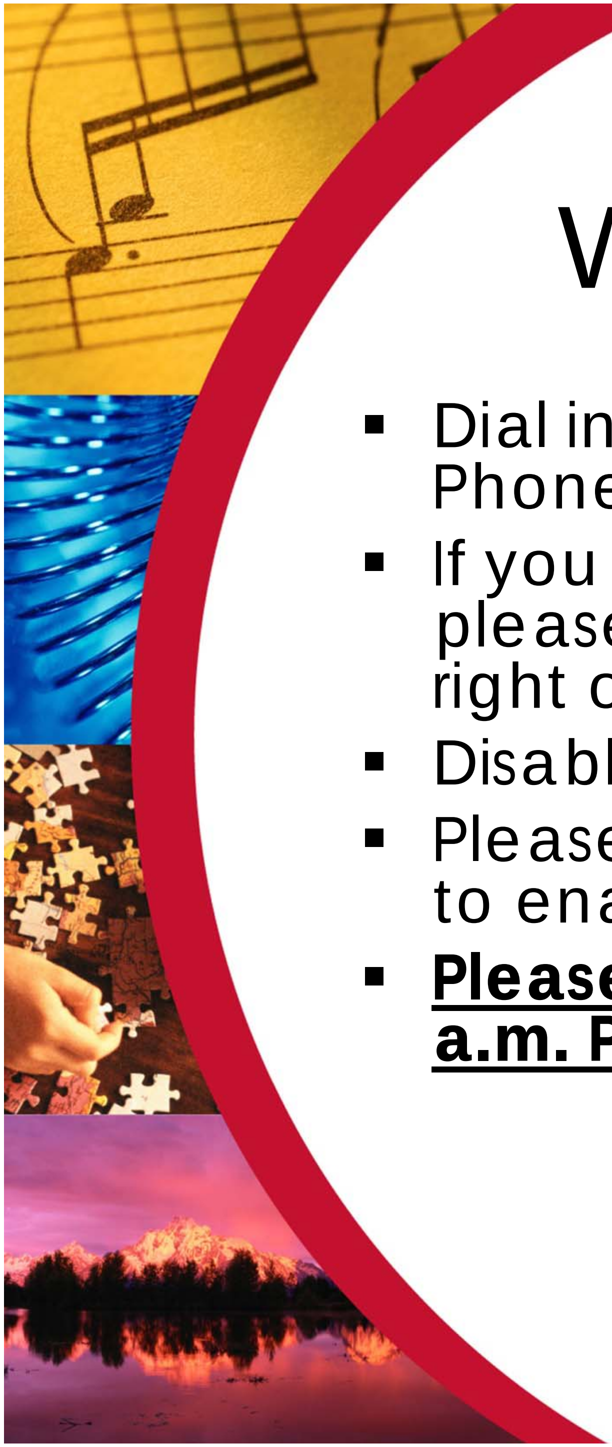
Life
SETTLEMENT SOLUTIONS®

In the Secondary Market, We're First.™



Webinar Instructions

- Dial in to 1-800-839-9416; access code 8334152. Phones will be muted.
- If you have questions during the presentation, please use the "chat" function located at the right of your web classroom screen.
- Disable pop-up blockers on your web browser.
- Please close other programs on your computer to enable the webinar to run efficiently.
- **<u>Please stand by, the webinar will begin at 10:30 a.m. PST</u>**

LSAM Events & Resources

- June 1 – Fundamentals of Life Settlements
- June 3 – Advanced Strategies and Case Studies
- June 8 – Investors Only Part 1 - Current Opportunities and State of the Market
- June 16 – Broker Panel: Understanding Providers and Brokers
- June 22 – The Life Settlement Marketplace - Regulatory Climate; Market Trends
- June 24 – Investors Only Part 2 - Portfolios, Securitization, Settlement Allocation impact on overall Portfolios

Continuing Education course on life settlements (www.lss.webce.com) available in all 50 states (2-8 CE Credits)

Downloadable resources and event signup at: www.lifesettlementawarenessmonth.com

Presenter

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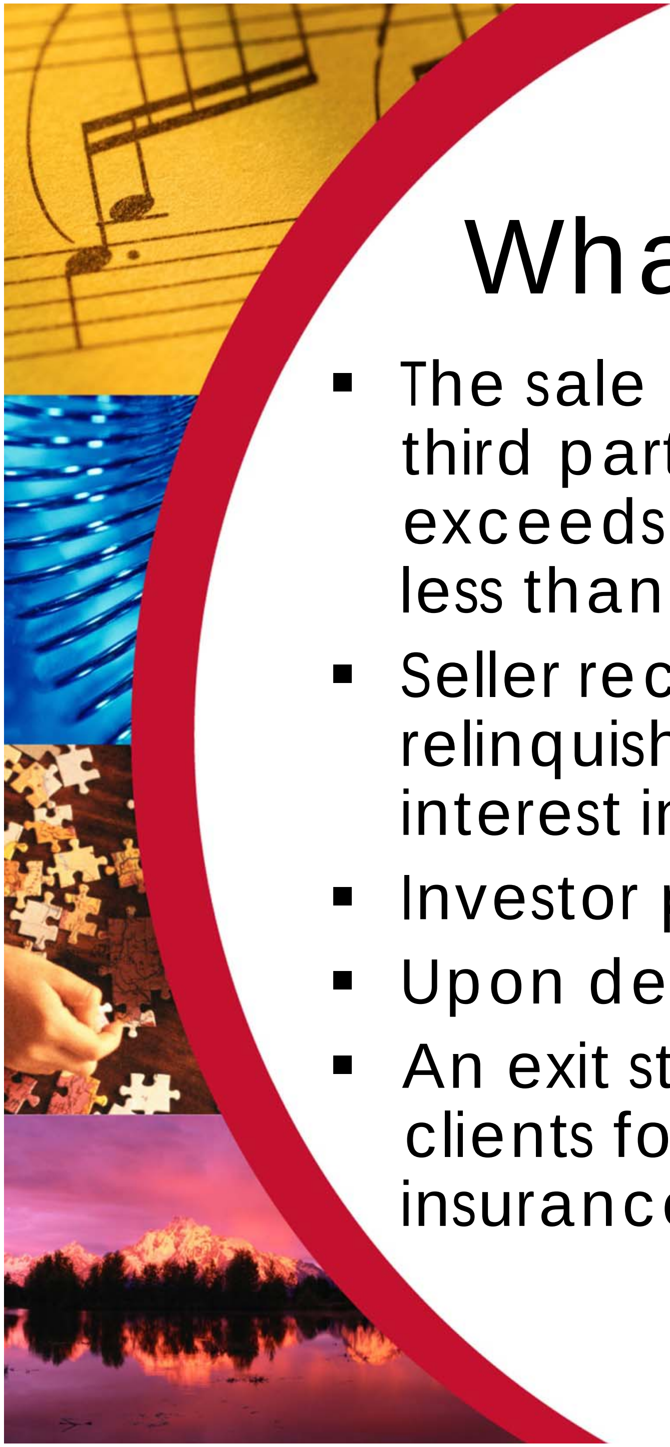
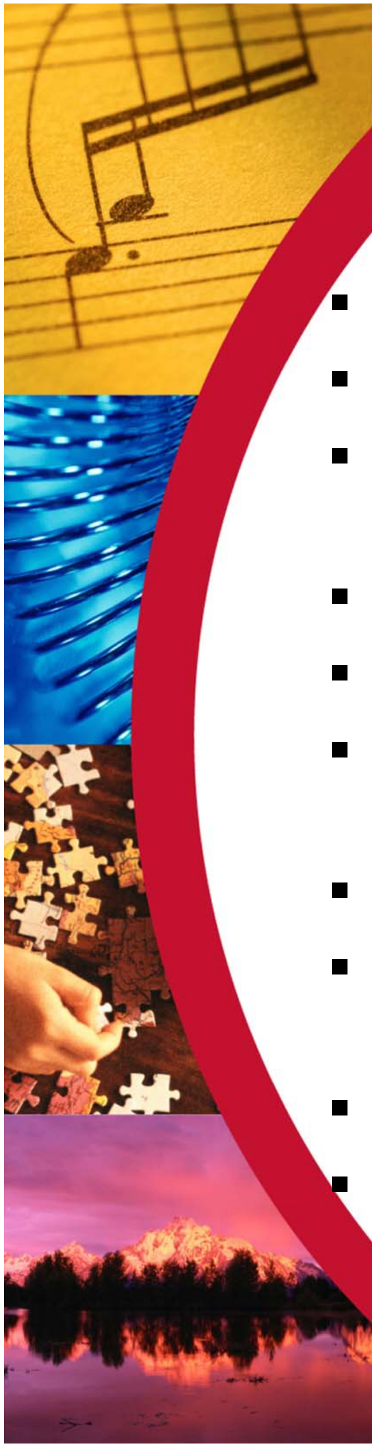
What We'll Cover

- The Basics of Life Settlements
- Benefits & Planning Options
- Market Participants & Entry
- Settlement Transaction
- Pricing Offers & Case Studies
- Regulatory Trends



What is a Life Settlement?

- The sale of an existing life insurance policy to a third party investor for an amount that typically exceeds cash surrender value (CSV) but is less than the policy face value
- Seller receives a lump sum payment and relinquishes all ownership rights of, and beneficial interest in the policy
- Investor pays premiums and keeps policy in force
- Upon death of insured, investor receives benefit
- An exit strategy for financial professionals and clients for un-necessary or under-performing life insurance contracts



Consider Life Settlements When:

- Financial plans change for client (recent economy)
- Reason insurance was purchased no longer applies
- Dependents change (divorce/death), are grown, or do not need coverage
- Under-performing policies & escalating premiums
- Clients have a current need for liquidity
- Client's insurance needs require newer, more appropriate coverage
- Business changes owners or leadership/key-executives
- Client needs exit strategy for advanced planning insurance programs
- Tool to fulfill charitable gifting needs
- Change in value of estate and/or estate tax laws

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A Vital Planning Option

- Multi-billion dollar industry
  - $12 billion FV industry in recent years
  - Industry potential of $160 billion in FV (Bernstein Research)
  - Annual potential of $20 billion FV during next 4-5 yrs (Conning)
- “Market value” of life insurance provides a revenue source previously unknown to many professionals/clients
- Eligible policy types are UL, single life and survivorship. Even term policies (that have no CSV) are eligible
- Industry has paid $billion’s more than CSV to policyholders
- Increasing consumer and advisor awareness
- Increased reasons for clients to seek revenue and liquidity
- <u>If you don’t offer life settlements, your competition will</u>

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Benefits to Clients & Producers

- Provides clients with an exit strategy option
- Competitive marketplace (market value)
- Provides added value to life insurance policy
- Added service/reason to meet with clients
- Settlement proceeds provide added resources for clients to update financial plans
- Cross-selling opportunities
- Additional revenue stream for producer/firm

The Players

- Transaction:
- Clients (sellers of policies) – and their advisors
- Agents – represent clients
- Brokers/Intermediaries – represent clients
- Providers/Funders – provide & represent capital sources

Other Players:

- Life Expectancy Providers
- Trustees

The Settlement Provider

- Represents capital source; provides direct access to funding
- Evaluates and issues pricing offer on policy
- Receives policies from agents, insurance GA's, broker-dealers, settlement brokers and/or other intermediaries to analyze
- Maintains transacted policies after settlement (monitors premium payments, insured status, etc.)
- Provides training and support services to distribution
- Extensive national licensing

The Broker/Intermediary

- Represents the client and producer
- Establishes and maintains relationships with a number of providers to obtain competitive offers
- Has infrastructure in place to support case compilation and transaction process
- Settlement broker licensing
- Supports document procurement, including illustrations, medical & life expectancy reports
- Provides support and training services

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Considerations for Entering the Industry

- Education & licensing requirements
- Assess capabilities, existing clientele, potential prospect sources and determine if you are capable of working directly with providers or if you need to work through an intermediary/broker and are willing to pay that cost
- Working with providers requires more work & infrastructure and yields higher settlement offers for client & agent
- Working through brokers requires less work & infrastructure and yields lower settlement offers for client & agent

Decision Considerations

Provider

- Licensing (Florida)
- Capital sources
- Track record of closed cases (at least $1B FV)
- In house legal counsel
- History in industry
- Reputation/Referrals
- Closing processes
- Member of LISA
- History of regulatory or customer complaints
- Resources

Broker

- Established relationships with a number of providers with institutional funding
- Track record of closed cases
- Compensation disclosure
- Proper licensing in your state(s)
- Reputation/Referrals
- History of regulatory or customer complaints
- Member of LISA
- Resources available for producers

Typical Characteristics

- Financial situation/needs change of client (previously outlined)
- Currently avg. age mid-to-late 70's
- Life expectancy greater than 2 years to approx. 12 years; average is about 8 years
  - No terminal illness or chronic/catastrophic conditions
- Policy types:
  - Universal life policies are most common
  - Other policies transacted include Survivorship, Term and Whole Life
  - Variable contracts are more limited and require b/d
- Carrier has a A-rating or better
- Typical face value of $250,000 to $5,000,000
- Policy must be beyond contestability period

The Transaction

- Compile settlement application package
  - Inforce Illustration, Medical records, Life expectancy report
- Submit case for evaluation (through broker or to at least 3-5 providers)
- Obtain offers; negotiation; acceptance of best offer or rejection
- Completion of transfer of ownership and authorization contracts
- Verification of coverage
- Change of ownership
- Escrow – seller payment and transfer of policy to investor
- Compensation to broker/intermediary upon expiration of rescission period

Pricing a Policy

- Face value – revenue for the investor
- Life expectancy – duration until revenue
- Premiums/COI – costs during duration
- IRR – required rate of return
- Settlement Offer – based on above elements

Pricing Changes

- Capital shortage
- Release of updated mortality tables 3/08
  - Updated results
  - More detailed age breakdowns
- Significant elongation of life expectancies by LE providers
- Increased IRR's to account for risk

Case Study

Client situation:

- 78 year-old male
- $2,000,000 Universal Life Policy purchased 5 years ago
- Cash Surrender Value of $45,000
- Upcoming Annual Premium $60,000
- Estate value/tax changes reduced need for coverage. Client does not wish to pay escalating premium any longer.

The Settlement Process:

- Initial offers received from 4 providers: $150,000 to $200,000
- Subsequent negotiations result in a final high offer of $300,000
- Client acceptance, contracts executed; escrow; ownership transfer at carrier
- Funds wired to seller. Client uses proceeds for retirement funding, smaller insurance policy.
- Upon the expiration of statutory contract rescission periods (3-15 days), compensation is wired to the agent/broker

Case studies are hypotheticals for discussion purposes and not indicative of average or future pricing.

Case Study

Client situation:

- 80 year-old female
- $1,000,000 Level Term Policy; conversion option (to UL)
- No Cash Surrender Value (term insurance)
- Upcoming Annual Premium $10,000
- Insurance no longer needed for debt coverage (mortgage). Client wished to reallocate funds away from premiums for un-needed policy

The Settlement Process:

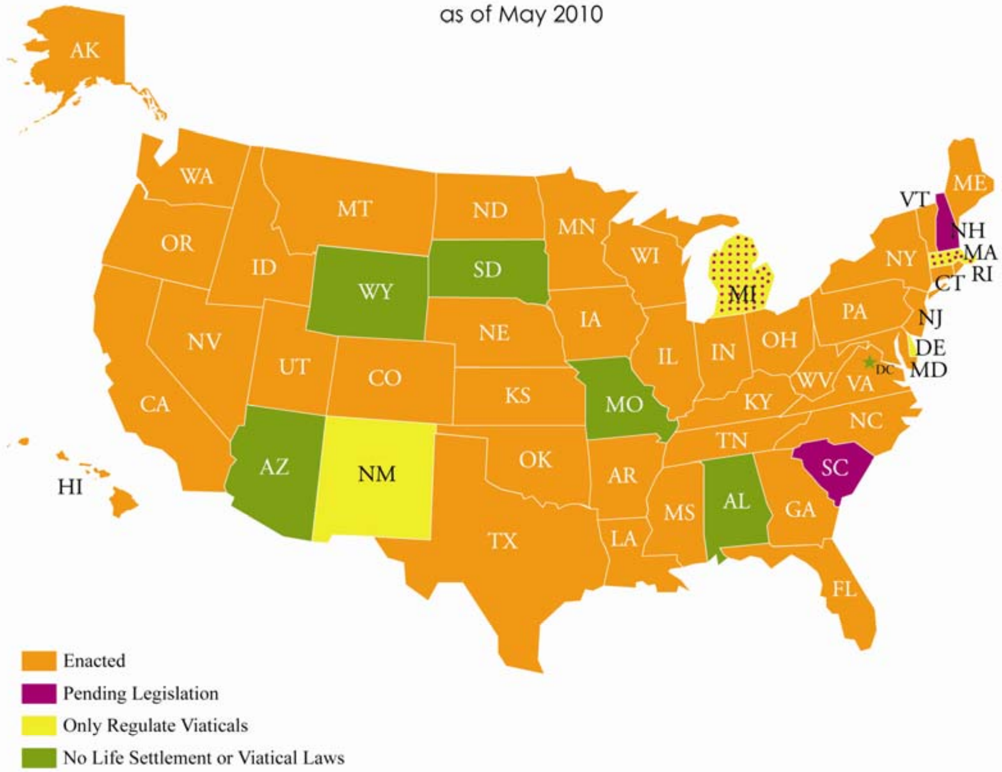
- Case file compiled incl <u>illustration for post-conversion UL policy</u>
- Initial offers received = $130,000 to $180,000
- Subsequent negotiations result in a final high offer of $200,000
- Client accepts, contracts executed; escrow; ownership transfer
- Funds wired to seller = $175,000 ($175,000 above CSV). Client uses proceeds for retirement funding, smaller insurance policy.
- Upon the expiration of statutory contract rescission periods (3-15 days), compensation is wired to the agent/broker for $25,000

Regulations

- Understand your state(s)' regulations
- Many states have enacted settlement regulations
- What are STOLI transactions?
  - Investor-owned v. investor-originated

The 2010 Life Settlement Laws

as of May 2010



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Regulatory Compliance

- Licensing
- State-specific forms, disclosures and process requirements
- Anti-Fraud Initiatives
  - Providers must implement Anti-Fraud plans as required by law
  - Industry needs to combat fraud in the procurement of policies (STOLI; overstatement of finances; nondisclosure of medical conditions)
  - All licensees are obligated to report suspected fraud to regulatory authorities

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About Life Settlement Solutions

- One of the oldest and largest life settlement providers
- In excess of $2 billion in face value closed to date
- Solely institutional capital (customer protection)
- Industry-renowned capabilities and reputation
- Member of Life Insurance Settlement Association
- AA+ rating from Scope Agency
- Expert management and employee teams
- Founder and presenter of Life Settlement Awareness Month (LSAM)®
- Developer of one of the few continuing education courses on life settlements for credit toward life licensing

Resources

Life Settlement Solutions

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www.lss-corp.com

www.lifesettlementawarenessmonth.com

www.lss.webce.com

www.lifesettlementsmarketwatch.com

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