




Life Settlements – The Fundamentals
Life Settlement Awareness Month
June 2008

Webinar Instructions

- If you haven't already, dial in to 1-800-839-9416 and enter the access code 8334152 to join the audio portion. Phones will be muted.
- If you have questions during the presentation, please use the "chat"  function located at the top of your web classroom screen.
- We recommend that you disable pop-up blockers on your web browser.
- Please close other programs on your computer to enable the Webinar to run efficiently.

Please stand by, the webinar will begin at 10:30 a.m. PST



What is a Life Settlement

- The sale of an existing life insurance policy to a third party investor for an amount that exceeds cash surrender value but is less than the policy face value
- Seller receives a lump sum and relinquishes all ownership rights of the policy
- Investor assumes premium payments and keeps policy in force
- Upon death of insured (maturity), investor receives benefit
- An exit strategy for financial professionals and clients for unnecessary or underperforming life insurance policies



Life Settlements are Not Viaticals

Life Settlement

- Insured is 65 years or older
- Life expectancy longer than 2 years
- No terminal illnesses
- No chronic or catastrophic conditions
- Average FV of policies for life settlements are \$1-2 million
- Institutional capital
- Regulations

Viatical

- Insured has terminal illness
- Insured suffers from chronic or catastrophic condition
- Life expectancy typically less than 2 years
- No age requirements
- Policy FV is typically smaller
- Can be regulated differently than life settlements
- Can be private pools of money



Life Settlements Should be Considered When:

- Financial plans change for client
- Reason insurance was originally purchased is no longer applicable
- Dependents change (divorce/death), are grown, or do not need coverage
- Policies underperforming
- Clients have a current need for liquidity
- Client's insurance needs require new, more appropriate coverage
- Business changes ownership or key executives change
- Client needs exit strategy for advanced planning insurance programs
- Seeking a tool to fulfill charitable gifting needs
- Changes in estate tax laws
- Client becomes "self-insured"
- Estate value change



A Planning Option You Need to Understand

- Significant industry growth
 - \$200 million FV (2001) to \$3 billion (2003); \$15 billion (2006)
 - Overall industry potential estimated at \$161 billion in FV (Bernstein Research)*
- Settlements typically yield 3-5 times more than CSV
- In the past 5 years, the industry paid in excess of \$2 billion more than CSV to policyholders*
- Flood of financial professionals entering the market
- Increase in consumer and advisor awareness
- If you don't offer life settlements, your competition will

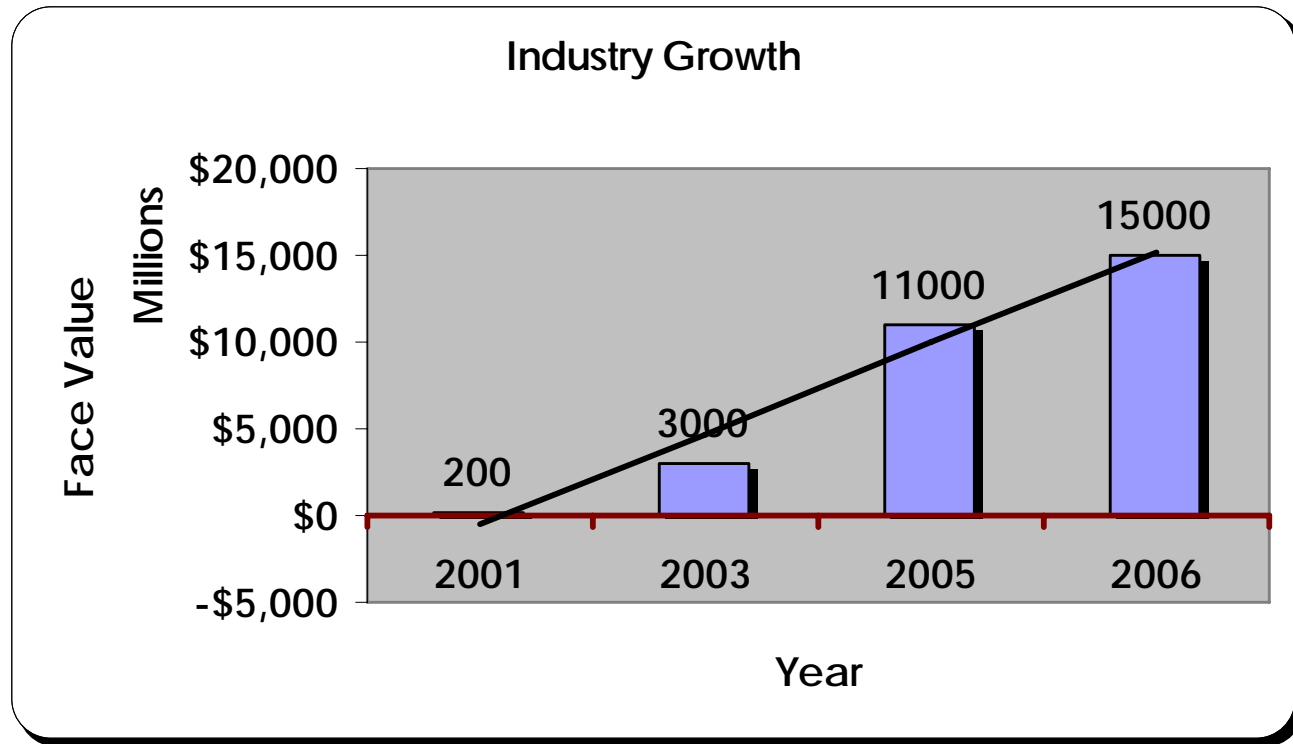
*Kamath, Suneet. (May 2006).

Life Insurance – Life Settlements Update – What a Difference a Year Can Make.

Bernstein Research



Industry Growth



Source: Bernstein Research



Benefits to Clients & Producers

- Provides clients with alternatives not previously available
- Competitive marketplace (market value)
- Provides added value to life insurance policy at time of sale
- Additional service/reason to meet with clients
- Settlement revenue provides resource for clients to purchase newer, more appropriate coverage, invest, LTC, etc.
- Cross-selling opportunities for new financial products
- Additional producer/firm revenue stream



The Settlement Provider

- Represents the institutional capital
- Evaluates, determines and issues pricing offer on policy
- Purchases policies to fill investor portfolio requirements
- Works with life settlement brokers and/or intermediaries to obtain policies for analysis
- Maintains transacted policies
- Provides training and support services to customer base
- Extensive national licensing



The Broker/Intermediary

- Represents the client and producer
- Established relationships with a number of providers to obtain competitive offers
- Comprehensive infrastructure in place to support case compilation and transaction process
- Extensive broker licensing
- Works directly with agents and/or consumers
- Will support the document procurement, including illustrations, medical reports and life expectancy reports
- Support and training services available to customers



Considerations for Entering the Industry

- Get educated
- Understand state licensing requirements
- Assess capabilities, existing clientele, potential prospect sources and determine if you are capable of working directly with multiple providers or if an intermediary or broker would be beneficial
- Determine infrastructure needs:
 - Ability to obtain required documents for case analysis
 - Ability to process case logistics
- Establish relationships with providers or broker



Provider or Broker?

Use a provider if you:

- Can establish and manage relationships with 3-5 providers
- Have infrastructure in place to process cases
- Have proper licenses required in the states you will transact business
- A strong understanding of how the transaction works
- Can meet volume requirements
- Are able to submit complete case files

Use a broker if you:

- Never transacted a life settlement before or very few transactions
- Have no relationships with providers
- Have insufficient support staff to effectively compile, negotiate and transact cases
- Need support in document procurement and completing case files for pricing



Decision Considerations

Provider

- Licensing (ex. Florida)
- Institutional capital
- 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 few/no 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 few/no regulatory or customer complaints
- Member of LISA®
- Resources available for producers



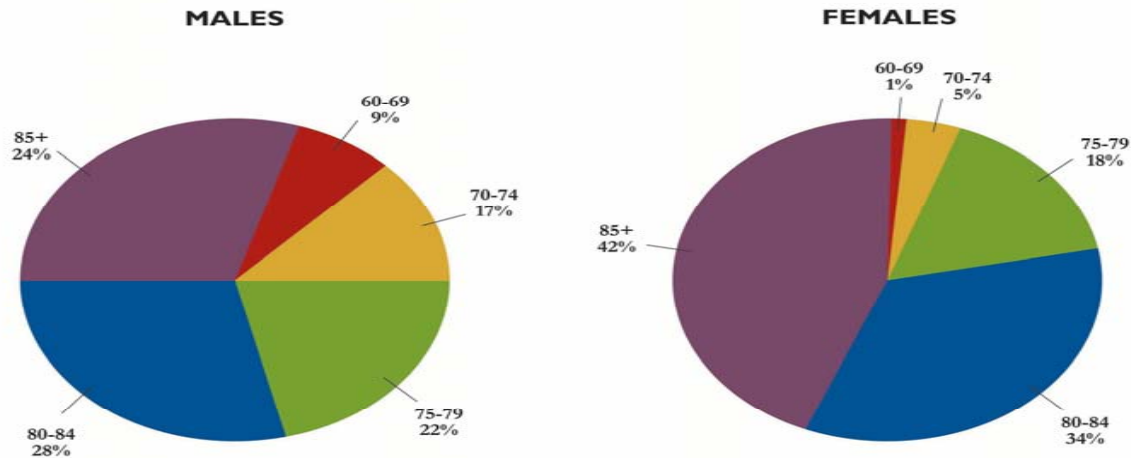
Typical Characteristics

- Financial situation/needs change of client (previously outlined)
- 65 years and older; avg. mid-to-late 70's
- Life expectancy greater than 2 years to approx. 17 years; average is about 10 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 BB rating or better
- Policy face value minimum has historically been \$250,000 but more small policy capabilities are becoming available (\$50,000)
- Policy is beyond contestability period



Specs of a Typical Case

AGE AND GENDER DISTRIBUTION



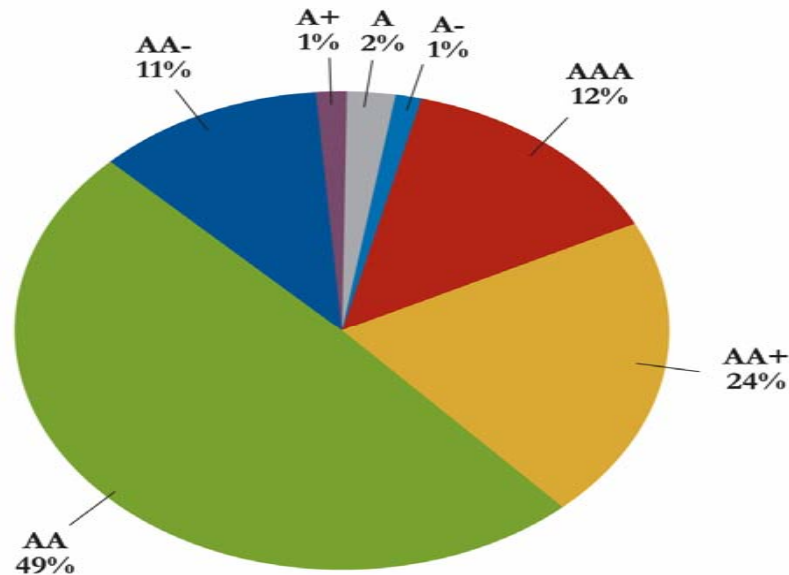
The Male/Female ratio was 69% to 31%.
Most Male insureds were 75+.
Most Female insureds were 80+.
In the case of survivorship policies, the data used was for the insured with the longer LE.

Source: Life Settlement Solutions, Inc.



Specs of a Typical Case

RATINGS STANDARD & POOR'S



96% of policies purchased had
S&P rating AA+ or better.

Source: Life Settlement Solutions

The Transaction

- Compile policy information
 - Illustration
 - Medical records
 - HIPAA
 - Life expectancy report
 - Case application
- 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



Case Study

Client situation:

- 75 year-old male
- \$5,000,000 Universal Life Policy purchased 5 years ago
- Cash Surrender Value of \$125,000
- Upcoming Annual Premium \$150,000
- Change in financial situation: Estate tax changes reduced need for coverage. Client does not want to pay escalating premium any longer.

The Settlement Process:

- Client case file compiled: HIPAA, medicals/APS, inforce illustration, LE report, application and sent to multiple providers for evaluation and pricing offers
- Initial offers received from 4 providers: \$900,000 to \$950,000. Two providers do not extend offers.
- Subsequent negotiations results in a final high offer of \$1,150,000
- Client reviews highest offer and decides to accept the offer
- Transfer of ownership contracts are then processed and executed; coverage is verified at the carrier; escrow; policy ownership is transferred and recorded at the insurance carrier;
- Settlement funds are wired to the policy seller in the amount of \$1,050,000 (\$925,000 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 \$100,000



Case Study

Client situation:

- 78 year-old female
- \$1,000,000 15 year Level Term Policy with two years left for conversion option (to UL)
- No Cash Surrender Value (term insurance)
- Upcoming Annual Premium \$10,000
- Change in financial situation: Insurance no longer needed for debt coverage (mortgage). Client wants to reallocate funds away from premiums for unnecessary policy

The Settlement Process:

- Client case file compiled: HIPAA, medicals/APS, inforce illustration for post-conversion UL policy, LE report, application and sent to multiple providers for evaluation and pricing offers
- Initial offers received from 5 providers: \$190,000 to \$220,000. No offer from one provider
- Subsequent negotiations results in a final high offer of \$250,000
- Client reviews highest offer and decides to accept the offer
- Transfer of ownership contracts processed/executed; carrier verifies coverage; term policy is converted to UL; escrow; policy ownership is transferred and recorded at the insurance carrier;
- Settlement funds are wired to the policy seller in the amount of \$220,000 (> \$0 CSV)
- Upon the expiration of statutory contract rescission periods (3-15 days), compensation is wired to the agent/broker for \$30,000



Regulations

- Understand your state regulations
- Evolving settlement regulation landscape (NAIC v. NCOIL)
- What are STOLI transactions?
 - Investor-owned v. investor-originated
- Keep current – newsletters, associations, settlement firms
- Sign up for webinar on regulatory trends (June 12)



About Life Settlement Solutions

- One of the oldest and largest life settlement providers
- In excess of \$2 billion in face value closed to date
- Industry-renowned capabilities and reputation
- Member of LISA®
- AA+ rating from Scope Agency
- 50+ employees
- Based in San Diego, with offices in NY and LA
- Founder and presenter of Life Settlement Awareness Month™
- Developer of one of the few continuing education courses on life settlements for credit toward life licensing



LSAM Events & Resources

- June 3 – Life Settlements Fundamentals
- June 5 – Investors-Only Webinar
- June 10 – Regulatory Forces Panel, featuring Brian Casey, Esq., Scott Cipinko, Esq., and Steven Walker
- June 12 – Advanced Strategies: Market and Regulatory Trends
- June 17 – Life Settlements Fundamentals (repeat)
- June 19 – Life Settlements Case Studies
- June 24 – LSS Educational Workshop at the MDRT Convention
- June 30 – The Market Evolution Panel, featuring Rep. George Keiser (ND), Roscoe Smith and Doug Head

- 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



Resources

www.lisassociation.org

www.lifeselementawarenessmonth.com

www.lss.webce.com

www.lifeselementsmarketwatch.com

www.lss-corp.com

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