




Life Settlements – Advanced Strategies
Life Settlement Awareness Month
June 2007

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.



Quick Review of Life Settlements – The Fundamentals

- A rapidly growing segment of life insurance industry
- \$3 billion in excess of CSV paid over past 5 years
- On average, settlements yield three-to-four times CSV
- For Life Settlement Solutions, Inc. settlements yield 550% more than CSV in the last 6 months of 2006
- Definition of life settlement & transaction process
- Considerations and requirements for selecting providers and brokers
- Reasons to increase knowledge of settlements
- Resources available



What We'll Cover

- Current industry trends
- Advanced marketing strategies
- Detailed case studies
- Policy pricing elements
- Thorough review of the settlement transaction process
- Current regulatory issues
- Sales ideas

Market Trends

- Continued significant increase in institutional investment capital entering market
- IRR requirements lowering with competition
- Average buyout price as a percentage of face amount increasing
- Regulatory attention increasing in areas of licensing, insurable interest, compensation and disclosure to clients
- Securitization impacts on market

Market Trends

- New brokers and providers entering market
- Many distribution firms (BGAs, B/D's, etc.) establishing provider-direct options
- Various advisors (agents, CPAs, attorneys, fee-base planners and broker-dealers) are entering the market
- Bernstein research updated report estimates settlement market will reach \$160 billion sooner than originally estimated
- Increasing awareness and knowledge by financial professionals about life settlement industry
- Increasing due diligence being conducted by firms engaging in life settlements

Review – Why Insurance is Sold

- Financial plans change for client
- Policies under perform resulting in escalating premiums or need to deploy capital elsewhere
- Change in status of beneficiaries (divorce, death, dependents become financially independent)
- Material change in the value of estate
- Change in existing estate tax laws
- Charitable gifting preferences
- Business insurance – key executives retire
- Business insurance – owner needs to recapture assets on COLI contracts for former employees

Why Insurance is Purchased in the Secondary Market

Institutional investors purchase policies for several key reasons:

- Non-correlated asset compared to equity markets
- Competitive rates of return
- Portfolio diversification
- Large supply of policies enabling the deployment of significant amounts of capital
- Ability to manage credit risk by purchasing policies from highly rated carriers
- Demographic trends of U.S. population
- Regulations, due diligence, compliance

Most Viable Candidates

- Males age 72+ and females age 75+ (minimum age is 65)
- Approximate life expectancy of 2-17 years
- Contracts purchase >2 years ago (out of contestability)
- Most common type of contract is universal life; others including whole life, term and survivorship can also be transacted
- Financial/insurance needs have changed over time
- Seeking better alternatives to lapse or non-forfeiture

Case Study Examples



Restructure Life Insurance Programs

- Clients insurance needs change and existing policies don't perform as expected resulting in a need to restructure life insurance programs
- Ensure that client can obtain new coverage before completing settlement
 - Example:
 - \$5 million UL policy
 - Premiums escalated from \$75,000 to \$200,000
 - CSV \$242,000
 - Life Settlement offer of \$1.8 million
 - Proceeds used to fund \$2 million life insurance policy and long-term care coverage with remainder to fund a trust for wealth transfer

Restructured Business Planning

- Key executive retires with COLI contract
 - \$4 million FV; \$200,000 premium; \$646,000 CSV
 - Life settlement offer of \$1.25 million
- Business owner seeks to recover capital from COLI contracts insuring former executives
 - \$2 million FV; \$60,000 premium; \$310,000 CSV
 - \$3 million FV; \$72,000 premium; \$486,000 CSV
 - Life settlement offers of:
 - \$722,000 for \$2 million contract
 - \$1,140,000 for \$3 million contract
 - \$1,862,000 combined offer vs. \$796,000 CSV

Charitable Giving

- Insured wants to make a charitable contribution while living; charity seeking funds immediately; eliminate need for continuing administrative or premium obligations for charity or donor
- Choice to donate policy or sell policy in secondary market and donate proceeds
- Donate policy:
 - Establish trust or donate directly
 - Continuation of premium funding/administration
 - Charity receives future benefit
- Transact a life settlement:
 - Sell policy in the secondary market
 - Donate proceeds to charity in the form of cash
 - Income tax deduction equal to the asset's fair market value to fully/partially offset taxable income/gains (always consult a tax professional)
 - Immediate benefit to charity
 - No ongoing premium or administrative requirements

Term Conversions

Client's coverage does not meet projected estate planning needs.
Client's term conversion expiring and needs permanent insurance.
Client perceives contract to have no value.

- Solution:
 - Convert term policy to UL
 - Conduct settlement on UL contract
 - Use proceeds to purchase updated/more appropriate coverage
- Term insurance with no current perceived value
- Agent potentially receives compensation on:
 - Conversion based on target premium
 - Life settlement transaction
 - Purchase of new, more appropriate coverage
- Agent must ensure that client can obtain necessary additional insurance based on health status and insurable capacity

Case Studies

- Case Studies are illustrative examples In the last half of 2006, Life Settlement Solutions' average payout to Sellers was nearly 25% of face value
- Average amount paid was approximately 550% more than cash surrender value in the last six months of 2006
- Actual price varies according to many factors, such as face value, premium structure, and life expectancy of the insureds



Elements of Pricing

- A sophisticated net present value calculation
- Face value/benefits payable of contract
- Cost of insurance; premiums payable to keep contract in force through maturity
- Life expectancy of insured (how long are premiums estimated to be paid); discussion of LE trends and viaticals
- Risk management calculations
- Rate of return requirements of investment capital
- Competitive bidding environment to obtain market value
- What can impact the pricing of the case?

Taxation of Life Settlements

Always consult a tax professional.

Taxation generally treated as:

- Proceeds up to cost basis are a return of capital with no tax liability
- Proceeds up to cash surrender value in excess of cost basis are treated as ordinary income
- Proceeds in excess of CSV are treated as a capital gain as long as asset owned > 1 year
- Contracts where seller has zero basis could be fully treated as ordinary income
- Taxation for businesses – varying tax opinions

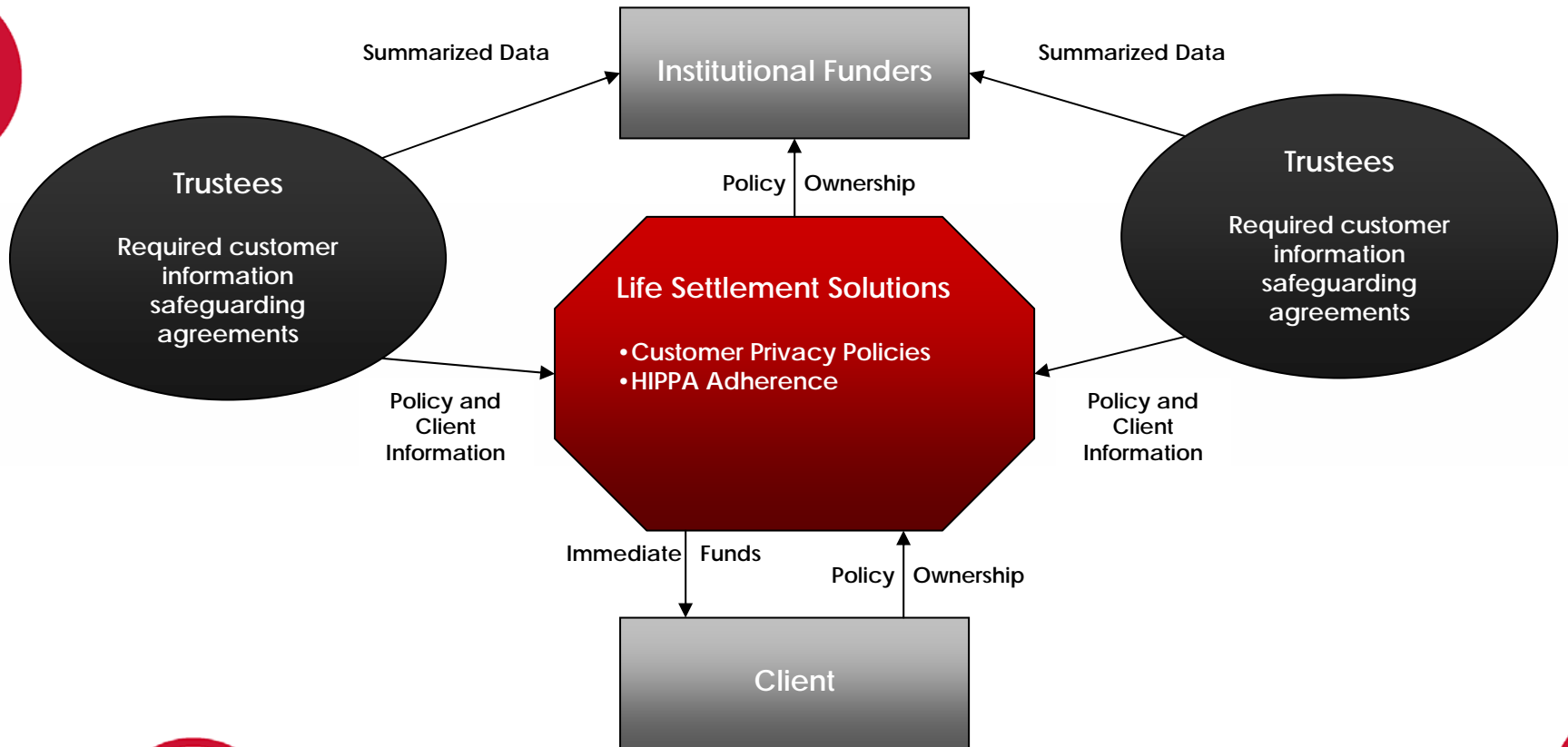
The Transaction Process

- Case compilation
 - Policy illustration
 - Signed HIPPA form
 - Life expectancy report
 - Case application
 - Medical records and APS
- Pricing offers/bidding process
- Acceptance/contracts issued
- Closing process
 - Parties involved
 - Verification of coverage
 - Provider, trustee, capital sign-off
- Escrow
- Remittance to seller; distribution entity
- Timeframes for transaction

Safeguards

- Safeguards in place for customer privacy and protection
 - Policy owned by trustees – major financial institutions
 - Institutional funding sources only receive summarized data
 - Solely institutional capital used to purchase policies
 - Security-encrypted and back-up technology systems
 - LSS agreements prevent subsequent sale to private investors

Safeguarding Customer Information



Industry & Regulatory Issues

- Insurable interest concerns
- Disclosure to customers/sellers of policies
- Increasing regulatory attention by:
 - Departments of insurance
 - NASD
- How to curtail Stranger Initiated Life Insurance programs?
 - NAIC hearings & proposed amendment to model act regarding settlements and viaticals
 - NCOIL recommendation

Industry & Regulatory Issues

- Facilitating change of state of residence may violate the law
- What disclosures should be required of carriers to advise policy owners of available option of life settlements?
 - Liability issues for non-disclosure and prevention of agents from engaging in life settlements
- Limitations being proposed to curb carrier interference with settlement closing process
- NASD notice to members and notice to seniors

Our position

- Insurable interest concerns can be addressed without depriving consumers of their property rights to conduct life settlements
- State insurance laws currently in place are already sufficient to protect insurable interest and prohibit policies being sold within well-established contestability periods
- More consistent regulation across the states regarding licensing, compensation and disclosure



Understand Your Situation

- Understand your selling-away agreements and your broker/dealer requirements
 - If your broker-dealer does not authorize settlements:
 - Formal request for life settlement transactions
 - Will B-D's E&O cover you for client lawsuits due to failure to recommend life settlements
- Agent/broker fiduciary responsibility – know your obligations
 - Work with more than one provider or work with a qualified broker
 - Ensure knowledge of market valuation of contracts you transact (premiums, LE, etc.)
- Understand licensing requirements based on states where you conduct business

LSAM Sales Campaign

Start now to set stage for strong year-end sales finish

- Identify potential candidates based on client/policy characteristics described on Web site
- Conduct planning meetings/seminars on existing life insurance coverage and determine if they still meet needs & expectations
- If any coverage is not meeting needs, then a life settlement may be a suitable course of action
- Work with settlement providers/brokers to obtain policy pricing offers
- Client decision on whether to transact a life settlement
- Conduct life settlement transaction and determine optimum use of proceeds

Full details on sales campaign available at www.lifesettlementawarenessmonth.com



Producer Resources

- Web sites of providers and brokers such as www.lss-corp.com
- Newsletters including Life Settlements Market Watch
 - www.lifesettlementsmarketwatch.com
- Articles in trade publications
- Sponsored training events such as Life Settlements Awareness Month™
 - www.lifesettlementawarenessmonth.com
- Life Insurance Settlement Association
 - www.lisassociation.org
- Continuing education course on life settlements
 - www.lss.webce.com



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