

CASE STUDY

Significant Premium Increase Spurs Life Settlement



NANCY'S STORY, AGE 83

Nancy's three children owned a life insurance policy on her life for estate planning purposes. A recent policy review revealed that the premium was set to quadruple. Rather than shouldering the increased financial burden, the children explored a Life Settlement and decided to sell the policy and equally distribute the proceeds.

Policy Type

- \$2,500,000 Universal Life
- Original Premium: \$20,000 / yr.
- New Premium: \$74,286 / yr. to age 100
- Cash Surrender Value: \$214,087

Client Outcome

- Initial offers ranged from \$440,000 – \$450,000
- 21-round competitive auction resulted in a high offer of **\$980,000²**
- **Nancy's children avoided rising premiums by selling her life insurance policy and received over one-third of the death benefit in proceeds.**

¹ Client name has been changed to protect confidentiality.

² The net offer is the amount paid to the client after any commission or expenses related to the sale.

ARE YOU A CANDIDATE FOR A LIFE SETTLEMENT?

- You have an insurance policy you no longer need or want
- Age 60 or older
- Experienced a decline in health since policy was issued
- Minimum death benefit of \$250,000
- Any Policy Type: Universal, Variable, Survivorship, Term, and sometimes Whole Life
- Any Owner Type: Individual, Trust, or Corporation

- **Valmark Securities, Inc. (Valmark):** Valmark and its registered representatives act as brokers on the transaction and will receive a fee from the purchaser. Valmark supervises all life settlements like a security transaction.
- **Life Settlement Providers:** Valmark markets policies only to Life Settlement Providers. Life Settlement Providers are generally responsible for maintaining the policy after sale and receive their funding from institutional buyers. Valmark reviews Life Settlement Providers periodically to affirm that their funding sources are institutional buyers, carry errors and omissions insurance, and are licensed in the state of sale.
- **Institutional Buyers:** Institutional buyers include qualified institutions, accredited investors, hedge funds, pension funds, and other qualifying investors. Investors bundle policies to ease any concerns with strangers having access to view millions of death benefit on an individual.

- In a life settlement agreement, the current life insurance policy owner transfers the ownership and beneficiary designations to a third party, who receives the death proceeds at the passing of the insured. As a result, this buyer has a financial interest in the seller's death.
- A policy owner should consider the continued need for coverage, and, if the policy owner plans to replace the existing policy with another policy, the policy owner should consider the availability, adequacy, and cost of comparable coverage.
- Policy owners considering the need for cash should consider other less costly alternatives to a life settlement.
- When an individual decides to sell their policy, they must provide complete access to their medical history, and other personal information, that may affect their life expectancy. This information is requested during the initial application for a life settlement.
- After the completion of the sale, there may be an ongoing obligation to disclose similar and additional information to the buyer or servicing agent at a later date.
- A life settlement may affect the insured's ability to obtain insurance in the future and the seller's eligibility for certain public assistance programs, such as Medicaid, and there may be tax consequences.
- Individuals should discuss the taxation of the proceeds received from a life settlement with their tax advisor.
- A life settlement transaction may require an extended period of time to complete. Due to complexity of the transaction, fees and costs incurred with the life settlement transaction may be substantially higher than other securities.
- Once the policy is transferred, the policy owner has no control over subsequent transfers.
- Each client's experience varies, and there is no guarantee that a life settlement will generate an offer greater than the current cash surrender value. In such cases, the client can always surrender their policy to the carrier if the coverage is no longer needed.
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