

Life Settlements

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There are generally 3 things you can do with an asset

1) Keep it

2) Donate it

3) Sell it

With a life settlement, that applies to your client's life insurance policies as well.

What are life settlements?

The sale of an in-force, properly purchased life insurance policy (on an insured age 60+ with a life expectancy of 2 to 20 years) to a 3rd party for its "fair market value", an amount exceeding the CSV or lapse value but less than the death benefit.

What they aren't

Viatical Settlements

The sale of an in-force policy insuring a person who is terminally ill with a life expectancy less than 2 years – IRC 101(g)(4)

STOLI or IOLI

An arrangement between a senior and an unrelated investor which mimics a life settlement. They are designed to evade insurable interest doctrine and other laws allowing investors to profit from a stranger's death.

Participating seniors may not be aware that:

- 1) Income, including the cost of the "free" coverage is taxable.
- 2) Misstatements, including those completed by an agent acknowledged with their signature, voids the insurance contract.
- 3) Insureds face potential legal liability &/or the risks of civil litigation brought by the insurer.

Statistics/Estimates

Historically only 1 in 7 life insurance policies result in a death claim

Life Policy Dynamics, 2006 Market Analysis & Life Exchange New Alert

\$930 billion worth of policies are terminated annually

An estimated 90% of all policies lapse before paying a claim -- *LISA*

40% of all policies lapse in the 1st 5 years -- *LIMRA and The Society of Actuaries*

88% of UL & 85% of term plans never result in death benefits -- *Milliman USA*

The Senior Life Settlement market has grown from \$0 in the mid-1990s to an estimated \$15B in 2008. The market potential is thought to be \$160B over the next several years & by 2016 annual transactions could reach \$140 billion

A combination of factors caused strong growth in the US settlement market in '07 fueling our expectations for market growth through 2010

1 in 5 policyholders over 65 is in line for a life settlement greater than the surrender value of the policy -- *Conning & Co., an insurance-research firm*

Of settled policies:

Trust owned , 40% / Individually owned , 40% / Corporate and charity owned, 20% / Male, 64% / Female, 36%

Life Insurance Aftermarket

Origins and Evolution

18th century London – betting on lives, “wager contracts” got their name from practices in the U.S. and England dating back to the 1880s when the line between gambling and life insurance was not clear. It was common for individuals to wager on the life of a stranger, considered immoral & against public policy.

1911 Supreme Court – Justice Oliver Wendell Holmes, *“life insurance has become in our days one of the best recognized forms of investment and self-compelled saving. So far as reasonable safety permits, it is desirable to give to life policies the ordinary characteristics of property. To deny the right to sell except to persons having such an interest is to diminish appreciably the value of the contract in the owner's hands.”* **GRIGSBY v. RUSSELL, 222 U.S. 149**

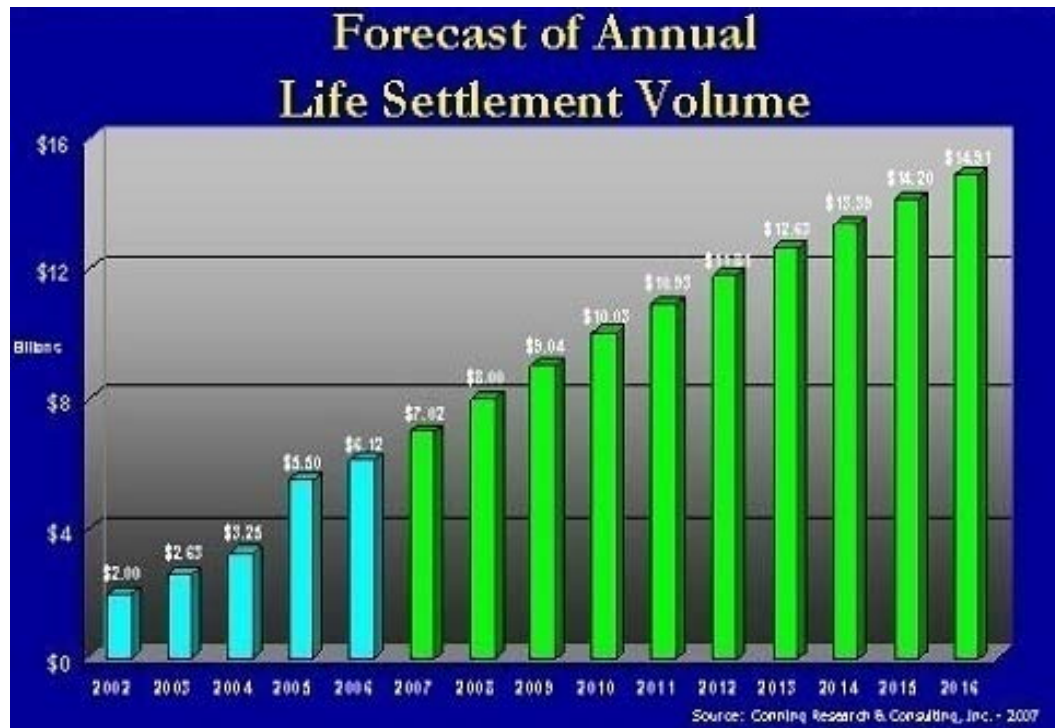
Industry Timelines

Viaticals, the first true life settlements - AIDS treatment advances changed market direction

Institutional investors enter and define the marketplace

NAIC Model Act: provides recommendations for state legislatures considering life settlement regulation. Activities relating to settlement transactions are addressed including advertising, closing and escrow processes, payment of proceeds, licensing, prohibited practices, penalties, standard language and definitions.

The Future of Life Settlements Industry is expected to double



Benefits

Clients

- Discard unwanted or underperforming asset
- Discontinue premium payments
- Substantial cash settlement well in excess of policy's surrender proceeds
- Favorable tax consequences on settlement funds received *
- Potential reinvestment amount/rate greater than accumulations within policy

Your Firm

- Enriches relationship you enjoy with your clients
- Expanded level of services
- Enhances existing product portfolio
- Word of mouth dividends drive additional referral traffic interested in your services
- Significant revenue streams via settlement commissions
- Possibility of conversion commissions and renewals

- Likelihood of settlement proceeds reinvested in available products/services

Where do they fit??

Examples of situations which may impact clients causing them to seek alternative strategies:

- Anytime policy lapse or surrender is considered and the client realizes there is a greater tangible asset value to their policy
- Existing policy has not performed as expected or exceedingly adequate for their current or future needs
- Insurance has outlived its usefulness or intended purpose
- Term settlement indicated due to cost prohibitive premiums, affordability or nearing conversion limit
- Disability or Long Term Care issues arise
- Client's desire to utilize policy values now for personal enjoyment
- Charitable contributions
- Divorce, Mortgage elimination, Financial status change or College funding
- Insured outlives the intended beneficiary
- Annuitization of policy cash value is considered as retirement supplement
- A possible, superior alternative to a 1035 tax-free exchange

Estate Planning

- Changes in federal tax law have made life settlement a viable option for trusts and individuals
- Many estates acquired policies for tax liability
- Exclusions have increased, tax rates have decreased so the policy may not be required
- Fiduciary responsibility
- Trustees are required to periodically obtain a present-day valuation of a life insurance contract held in trust
- Valuation may reveal an outdated policy which can be replaced with one that more efficiently accomplishes the Trust's goals

As an exit strategy for true premium financed (NOT STOLI) cases

Business Issues

- Split Dollar, Succession Planning, enhance or create severance packages, LOC no longer required, dissolution of partnership eliminates need for funded Buy-Sell, sale of company, key employee resigned/terminated/retired, RLR, NQ deferred comp, BOLI, COLI, DB pension plans containing WL contracts, improperly transferred policy tainted causing 3 year rule to apply

Fiduciary Duty

Client's expectations of you

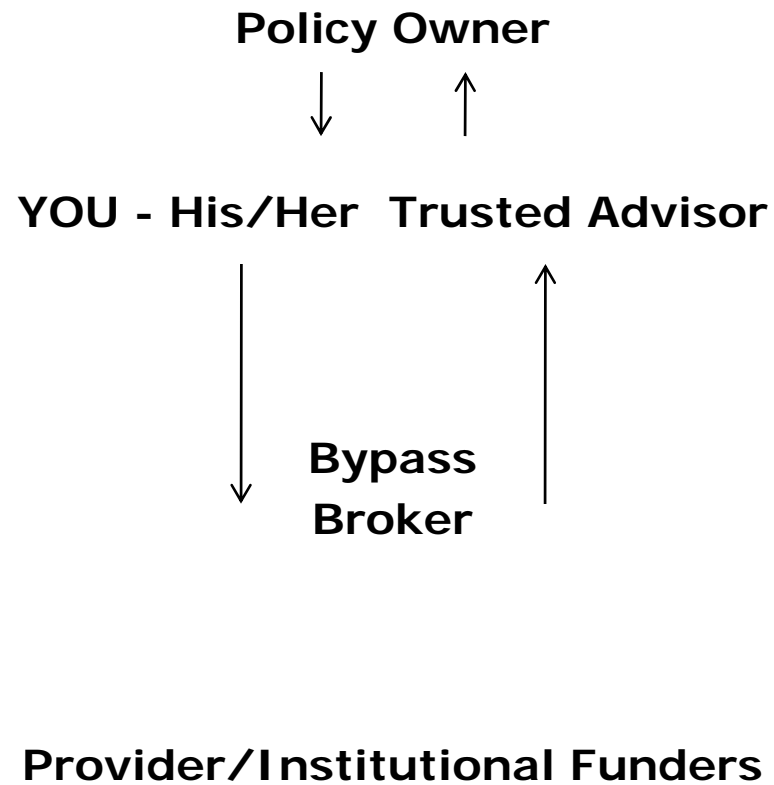
Well versed on new tools and solutions

Evaluate suitability

Implement where appropriate

What is the liability of an Agent, Advisor or Trustee who allows a thinly funded policy to lapse if it had a value in the secondary market?

The "Players"



Working with a Provider or a Broker?

As the life settlement industry grows at an accelerating pace, an increasing number of producers are opting to bypass Brokers and transact directly with Providers

LISA – compliance dictates that a producer obtain quotations from at least 1 Provider

While the idea of acting as your own broker might seem daunting, working direct is surprisingly simple and well worth the additional effort

Those who elect to do so benefit from significant opportunities to execute more efficient transactions

- Consumers receive a greater payout *

- Producers earn higher commissions *

- Producers can provide optimal client service by engaging in direct dialogue with a provider

 - and achieve a greater degree of transparency, control & transaction efficiency evaluating bids

- The overall life settlement transaction process is expedited

***see next slide**

1.8 v 2.385

72 Male \$10,000,000 UL \$307,000 CSV

Broker bid/offer of \$1,800,000

6% of face = \$600,000

30% of settlement = \$540,000

Benefit to owner = \$1,260,000

Provider bid/offer of \$2,385,000

6% of face = \$600,000

30% of settlement = \$715,500

Benefit to owner = \$1,785,000

Excess to Client +\$525,000

Excess to Producer +\$60,000

Institutional Funders

What constitutes an institutional investor?

A bank, investment bank, insurance company or a qualified institutional buyer ("QIB") as defined in Rule 144A of the Securities Act of 1933. It's not a group of non-accredited investors or an institution formed for the sole purpose of pooling funds solicited from private non-accredited investors to purchase life insurance policies.

Relevance of institutional capital to Insured?

Life settlements provide maximum protection from the fraudulent practices and personal privacy risks that too often plagued the viatical industry.

Cases involving individual investor fraud have made clear the importance of large investors, which are experienced risk and case managers.

Sellers are ensured greater privacy protection throughout the life of the policy.

Institutional sources of capital have expanded the settlement market resulting in policyholders receiving maximum value in a competitive market.

Underwriting, Appraisal and Valuation

Age and Health status of insured

Life insurance in reverse – older/sicker increases value in secondary market

Think rated immediate annuity for example

Medical records

Internal/external LE's - mortality tables and historical data

Milliman study - Economic value of existing life insurance

Policy particulars

Type

Face amount (premium to death benefit ratio)

Surrender value and outstanding loans

Future premium costs or premium reserves

Beyond contestability (2 years) period

Anticipated funder rate of return and cost of capital

Current capital markets and regulatory disclosure

STOLI - Assignment to others, Insurable Interest applicable at policy inception only

Sample Life Expectancy Report

AVS
Underwriting, LLC
175 TownPark Drive, Suite 400, Kennesaw, Georgia 30144 • P: 770.936.8880 F: 770.936.7993

Page 1 of 1
Report Version: 237834-1-1

Report On: [REDACTED]
SN: [REDACTED]
Life Expectancy: 84 months
Table Used: AVS 2
non-smoker M

Date of Birth: [REDACTED]
Primary Diag: Alzheimer
Mortality: 200 %
Med Rec From: 01/26/1996

LG Calculation Age: 79
Terminal Illness: Without
Height: 5'8"
Weight: 170 pounds 05/08
To: 05/12/2008

Requesting Company: [REDACTED]
Requested By: [REDACTED] Client Ref: [REDACTED]

[REDACTED] has a history of dementia/Alzheimer's disease (AD), hypercholesterolemia, BCC, BPH, elevated blood sugar, osteoarthritis, osteoporosis, pelvic fracture, hypothyroidism, spinal stenosis, compression fracture, cervical degenerative disc disease, PVCs, and vestibular dysfunction. Surgical history includes a hernia repair and cataract surgery. His father died at 62 from a thrombotic stroke and his mother died at 78.

Osteoarthritis of the left knee was diagnosed in June 2002. BP in July was 130/70. Memory loss was noted in September 2003. A BCC lesion was removed from his face in March 2004. BP in May was 120/70. DEXA in August showed osteopenia. His physician noted his AD was getting worse. BP was 100/70. He was taking Exelon in October. Stress ECHO was normal. EKGs traced PVCs. BP in November was 130/70. His physician noted early AD. He was taking Namenda in February 2005. BP in June was 130/80. Increasing dementia was noted in September. Glucose level in June 2005 was 104 (85-99) and BP in July was 170/70. DEXA in October was stable. An adenomatous polyp was found in November. BP in January 2007 was 120/70 and BP in October was 132/82. MMSE was 20/30. Neuropsychological testing reported a severe memory impairment with performance not highly characteristic of a specific etiology, however, rapid forgetting noted on memory testing was associated with AD. AD was assessed in November and he was treated with Exelon. BP was 120/76 and dementia was stable. Glucose level was 120 in December and decreased to 92 in January 2008. He was diagnosed with a BCC lesion on his chin in March. BP in May was 100/60. Medications listed were Exelon, ASA, Centrum, Nabumetone, Fosamax, Namenda, Fiomax, Synthroid and Singular.

Date of Report: 07/02/2008
Dana Gregory, Underwriter

07/02/2008
Date

Disclaimer
Any report that the Company receives from AVS, LLC is intended for the specific use of the Company or individual signing this Agreement ONLY, and may be distributed to persons or entities in connection with the transaction in which the original life expectancy report was requested, but shall not otherwise be distributed to any other party, without the written consent of AVS, LLC. All medical information and/or data specific to the identity of any individual(s) are considered confidential under certain state and Federal laws. If your state or the insured individual's state of residence requires such protection, then state law prohibits you from making further disclosure of the information without specific written consent of the person to whom it pertains, or as otherwise permitted by law.
Evaluations to determine life expectancy are based on the understanding of current available medical records provided at the time of evaluation. AVS, LLC makes no representation that any individual will expire on or near the time period indicated on the provided life expectancy report. The life expectancy of any individual may be impacted positively or negatively by factors that change following the date of the evaluation. Every effort is made to anticipate future favorable or adverse changes to medical conditions, but it is not possible to make representations, guarantees or assurances after the date of this evaluation. This report is void if used in the purchase, procurement or sale of any life insurance policy which is not issued by a licensed insurer in compliance with the laws of the state governing the issuance and/or delivery of the policy.

Qualifying Criteria/Determining Eligibility

Insured/Policy facts

Male or Female 60 - 65	0
Male 65-68 or Female 65-71	5
Male 69-74 or Female 72-77	10
Male 75-78 or Female 78-81	15
Male 79+ or Female 82+	20

Healthy	0
Minor problems	15
Considerable changes since issue	20
Serious health problems	25

Non-smoker	0
Smoker	10

Survivorship or WL	4
UL or Term convertible to UL	8
Survivorship 1 deceased	10

Current CSV	30% of face	4
	20-30% of face	6
	10-20% of face	8
	0-10% of face	10

Policy loan	30% of face	4
	20-30%	6
	10-20%	8
	0-10%	10

Premium	5% of face	0
	4-5%	3
	3-4%	7
	2-3%	11
	1-2%	15

Points

Life Settlement Probability

25 or less Highly unlikely

26-37 Low Probability

38-67 Average

68-100 Highly Likely

For a more in-depth review, applicants are encouraged to submit a completed application.

Case Study – Assuming Surrender

\$1,000,000 life insurance policy

Cash Surrender Value	185,000	
Less Premiums Paid = Cost Basis	<u>155,000</u>	155,000
Ordinary Income	30,000	
Tax at assumed rate of 25%	<u>- 7,500</u>	
	22,500	<u>+ 22,500</u>
Net after-tax proceeds		177,500

Information contained in this presentation does not constitute tax advice. Tax treatment of life settlement transactions may differ from state to state, and government legislation may also change taxation of this type of transaction. Any statement relating to any U.S. federal, state, or local tax matter was written in connection with the promotion or marketing by other parties of the transaction(s) or matter(s) addressed in this presentation. Each taxpayer should seek advice based on their particular circumstances from an independent tax advisor.

Same Case – Policy Settled

\$1,000,000 life insurance policy

Settlement Amount	300,000	
Cash Surrender Value	185,000	
Less Premiums Paid = Cost Basis	<u>155,000</u>	155,000
Ordinary Income (185,000–155,000)	30,000	
Tax at assumed rate of 25%	<u>- 7,500</u>	22,500
*Capital Gain (LS 300,000 – CSV 185,000)	115,000	
Tax at assumed rate of 15%	<u>- 17,250</u>	+ <u>97,750</u>
Net after-tax proceeds		\$ 275,250

(w/o settlement \$177,500)

*There is currently no IRS guidance/code

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Process Timeline

Typically 2 to 5 months to completion

Small face takes less time – 7 to 10 days

Complete and forward application

Acquire APS -- current medical records *

In-force illustration to maturity/age 100+

. Level, required premium

. Minimum cash value

Obtain LE -- life expectancies (AVS, Fasano, 21st) *

Underwriting and Pricing phases – Milliman study

Offer and acceptance

Escrow

Contract and closing

Verification of coverage

Change of ownership and beneficiary

Funds disbursement and rescission period

State Licensing Map



Adding Life Settlements to your practice does not
require...

... a major investment of your time and resources

... your staff to be taken away from full-time core
competencies

... you to build or buy your own dedicated Settlement
Agency

Marketing and Advertising

State specific prior approval requirement

Regulated or not

Truthful

Not misleading

Maintaining control:

Over form and content

Dissemination of advertising

Typical financial services marketing "*odds*"

Mass	Cold approach	100/30/3/1	100:1
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Target	<u>What</u> you know	8/5/3/1	8:1
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Pro C of I	<u>Who</u> knows you	2/2/1.5/1	2:1
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Existing base Natural Market	Your pre-established level of trust & confidence/reputation		
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(Attempts/Contacts/Appointments/Sales)

Term to Perm Settlements are on the rise

A lot of convertible insurance is on the books, much of it nearing the end of their terms

Most term-to-perm insureds are age 75 to 80

Contracts usually involve 10 to 20 year level plans

The customer is approaching a decision point, whether to keep, convert, terminate or sell

Easy decision for insureds as policy has no value whatsoever if lapsed

Institutional and equity markets require permanent because:

- Of the way the asset is booked

- A converted policy has no potential expiration date

- Funders need to use permanent for securitization

Since consumers recognize life insurance as an asset class and may want to monetize their policy someday, they will perceive these conversion features as highly valuable and beneficial.

As an agent you can:

- Review your book of business and alert your C of I's to this valuable feature

- Include conversion features as part of the annual policy audit

- Explain the mechanics of what they already own

- Present all available options, including whether term-to-perm settlement is possible

Communication, Announcement and Introduction

Opening, supportive commentary from CEO

What we have created for our valued clients

Why there is a need for this service

Why we believe this will be of profound benefit and interest to you

What the program will offer

Who we have “partnered” with in this endeavor

Firm chosen

Specific individuals

Client/Professional Advisor Education

General audience (Clients/Staff) in-person approach

Specify and educate broad and target markets

Regular newsletter entries

Email and US Mail efforts

PPT presentations

Various articles of interest where available and permissible

Pertinent legislation, regulations, rulings and court decisions as they occur

Strategies & updates appropriate for clients where/when available

Story sharing

Hot topics

Targeted Mailings

Work with Staff to identify concepts appropriate to their client base

Select from numerous marketing/education pieces and approaches

Staff and others followed-up and took action where indicated & desired

Seminars

Held at CI locations or optionally at client's business for exec's and retirees

Review employee benefit programs for possible implementation, appropriateness

Provide suggestions, coordinated solutions and quotations

Continuing Education for associated professionals

History and ABC's of Life Settlements

How they impact an insurance/investment portfolio

Corporate Client Interviews

One-on-one Insurance check-up to determine if Settlement is a viable option

Incorporate Staff meetings with clients to evaluate their needs concurrently with other planning efforts

Due diligence review of in-force contracts as to suitability, appropriate to need or obligation, cost to value, etc.

Existing Professional/Business Relationships

You all have them. Why do they respond favorably?

Your long-standing, professional reputation in the community

Trust and confidence clients and other C of I's place in you

You provide objectivity and options

Your knowledge, experience and expertise

Broker's Mailer



There is **GOLD** hidden in your unwanted life insurance policies!!

MONOPSONY: A market in which there is only one buyer for a product

Do you have a life insurance policy that's unneeded or unaffordable that you wish to terminate? If you feel your only choices are to lapse or surrender it to the company you purchased it from, you may wish to consider an additional option.

Our Life Settlement specialists work directly with providers and institutional funders to offer significant multiples of your policy's cash surrender value. Works for many term life plans as well. Ask us how you may be able receive a much greater amount than the insurance company is willing to provide.

Because when it comes to life insurance exit strategies, *MONOPSONY* isn't fair or equitable.

Broker Name
Contact info
Address
Phone(s)
Email(s)
Website(s)

PROSPECT NAME
ADDRESS
CITY, ST

Questions??