

# What Is A Life Settlement?

A life settlement is the sale of an existing life insurance policy that gives the policy owner a cash settlement in excess of the current cash surrender value.

Life settlements provide seniors with an exit strategy from unwanted policies, while providing financial professionals with opportunities to better maximize their clients' financial objectives.



## Reasons To Consider A Life Settlement

- ❖ Policy is in danger of lapsing
- ❖ Policy is simply not performing as desired or needed
- ❖ Insured's health has changed
- ❖ Changing estate and tax laws
- ❖ Changing personal circumstances (divorce, retirement, death of a spouse or a beneficiary)
- ❖ Changing business circumstances, like the sale or purchase of a business, or a decreased need for a key person policy
- ❖ Wealth accumulation obviates the need for the policy
- ❖ Premiums have become too expensive
- ❖ The client has a need for additional life insurance or to fund Long Term Care

## Benefits To The Client

- ❖ No need for a current medical exam
- ❖ Provides liquidity
- ❖ Can fund alternative product purchases to fit current needs
- ❖ Provides relief of premium expense
- ❖ Create a better solution for their current needs

## Basic Parameters Of A Life Settlement

How much will be received for a policy?

There are many factors that determine the offer amounts:

- ❖ Age
- ❖ Premiums
- ❖ Client's health
- ❖ Type of policy
- ❖ Insurance company rating
- ❖ Policy size
- ❖ Amount of cash value in the policy
- ❖ Competitive bidding
- ❖ State of residency
- ❖ Policy loans (if any)



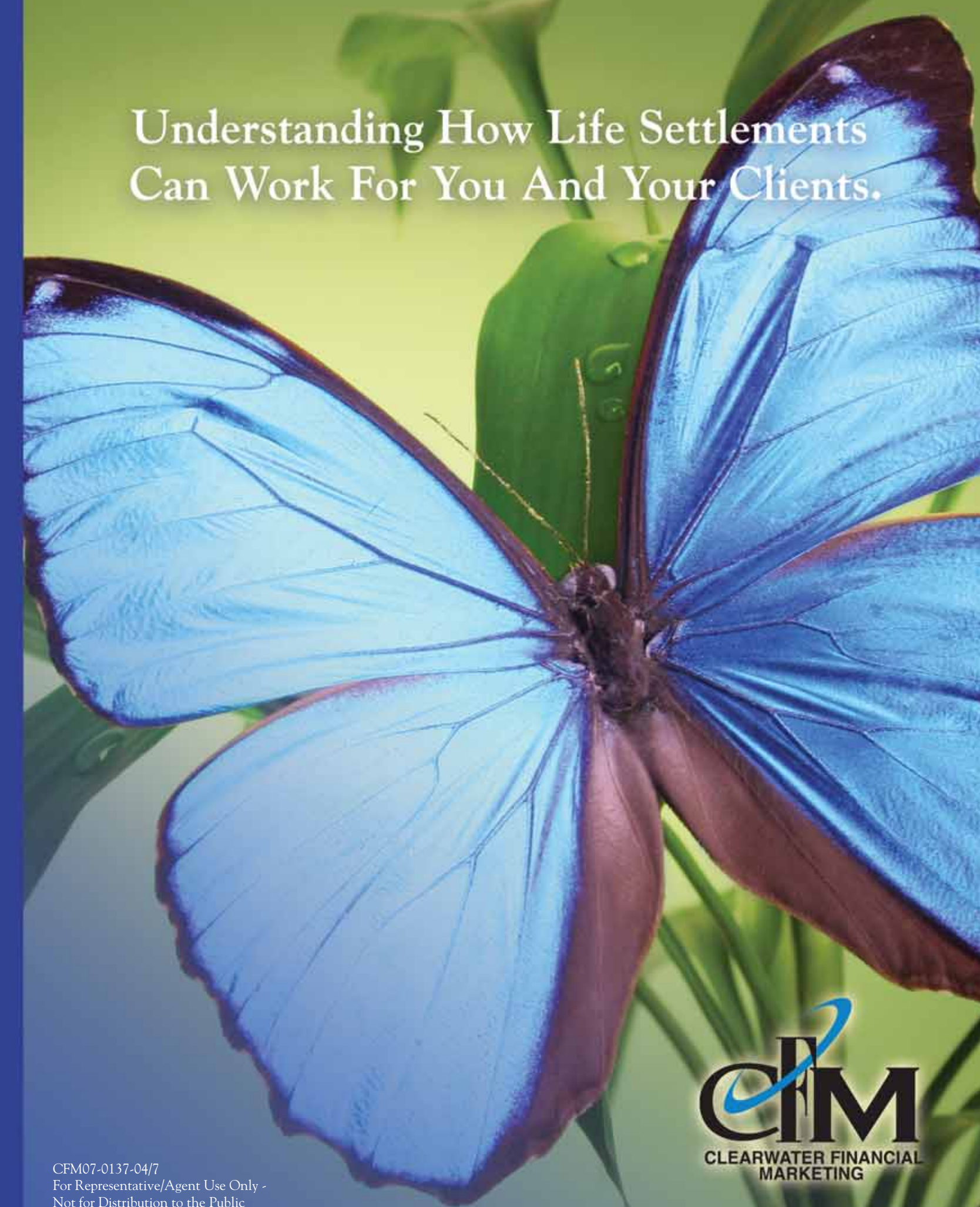
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# Understanding How Life Settlements Can Work For You And Your Clients.



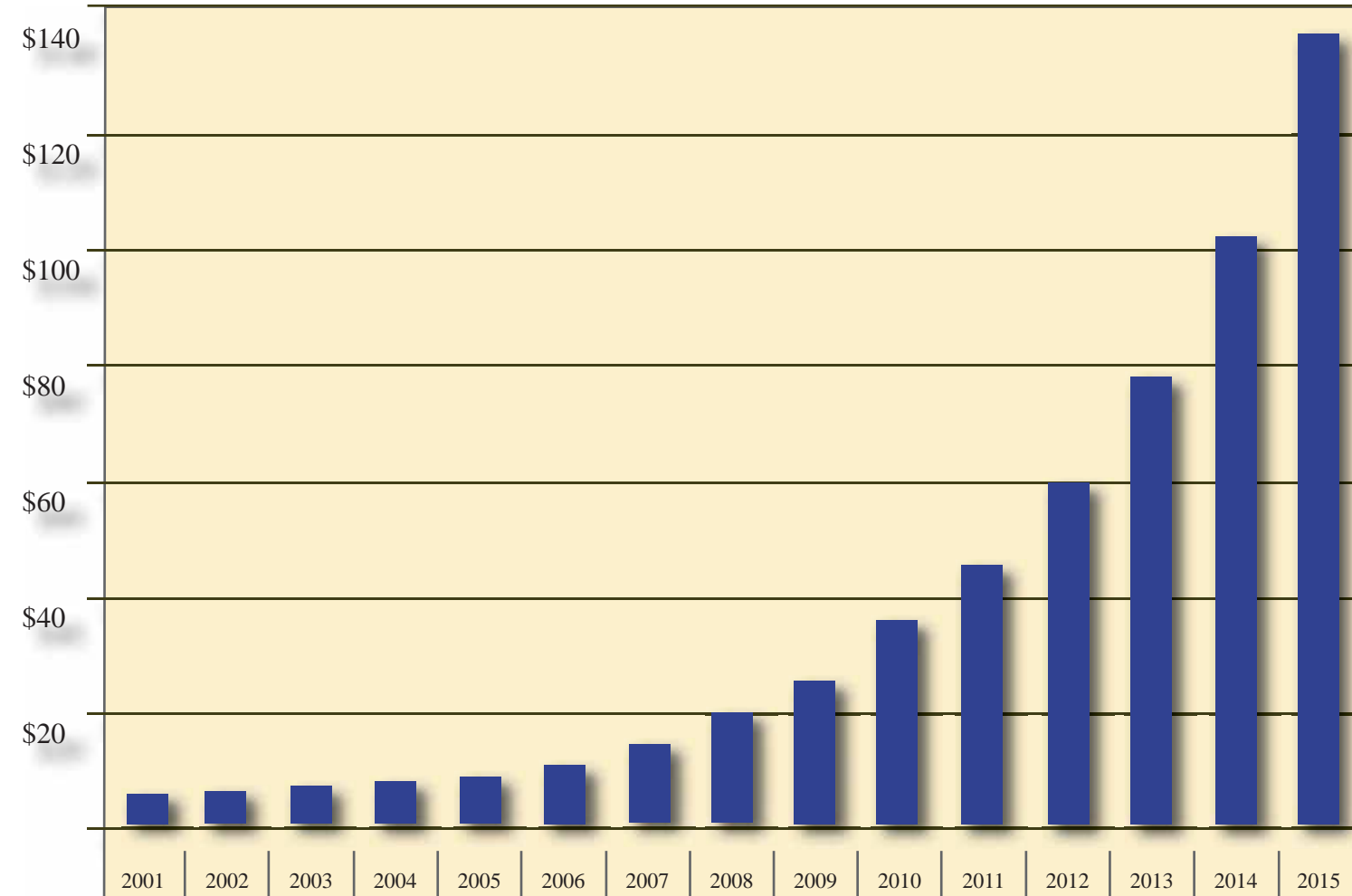
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# The Life Settlements Market Is Big... And It's Getting Bigger

...and some say it could top \$125 billion by 2015!



Source: Life Settlement Institute, Lehman Brothers Estimates

## Types Of Policies Eligible For Life Settlement

- ❖ Universal Life
- ❖ Whole Life
- ❖ Term
- ❖ Variable Life
- ❖ Joint
- ❖ Group
- ❖ Key Person



## Who May Qualify For A Life Settlement?

The following criteria are typically required for successful life settlement transactions:

- ❖ 70+ year old male or 75+ year old female
- ❖ In-force for at least 2 years (may vary by state)
- ❖ Annual premiums < 6% of death benefit\*
- ❖ Cash surrender value < 25% of death benefit\*
- ❖ Younger clients considered if significant change in medical condition since issuance.

### Actual Case Study Example 1

- MALE – Age 70
- ❖ \$3,000,000 Term Policy
  - ❖ Surrender Value \$0
  - ❖ Client was going to lapse the policy
  - ❖ Divorce Decree
  - ❖ Settlement Amount of \$400,000

### Actual Case Study Example 2

- FEMALE – Age 81
- ❖ \$2,600,000 – UL Policy
  - ❖ Wanted to allow policy to lapse
  - ❖ Pricing model convinced client to pay
  - ❖ \$50,000 premium
  - ❖ Before next payment was due, policy sold
  - ❖ Settlement Amount of \$854,000

### Actual Case Study Example 3

- Buy/Sell Example**  
Age 84 – Minor Health Issues
- ❖ \$450,000 Policy
  - ❖ Premiums \$32,000
  - ❖ Buy/Sell Agreement
  - ❖ Partner Died
  - ❖ Daughter has policy rights
  - ❖ Settlement Amount of \$106,000

\*The higher the premium and/or cash, the shorter the life expectancy needs to be.

## Life Settlement Process

- Prequalify Application Current IFL  
1-6 weeks
- VOC, Medical Records  
2-3 weeks
- Case Posted Awaiting Life Expectancies  
4-6 weeks
- Negotiation  
3-4 weeks
- Offer Acceptance
- Closing Documents Prepared  
1-2 weeks
- Closing Documents Reviewed by Client  
1-4 weeks
- Post Submission of Signed Closing  
Documents Awaiting Change of Ownership  
2-4 weeks
- Escrow 3 days

## Owner Paid Settlement Amount

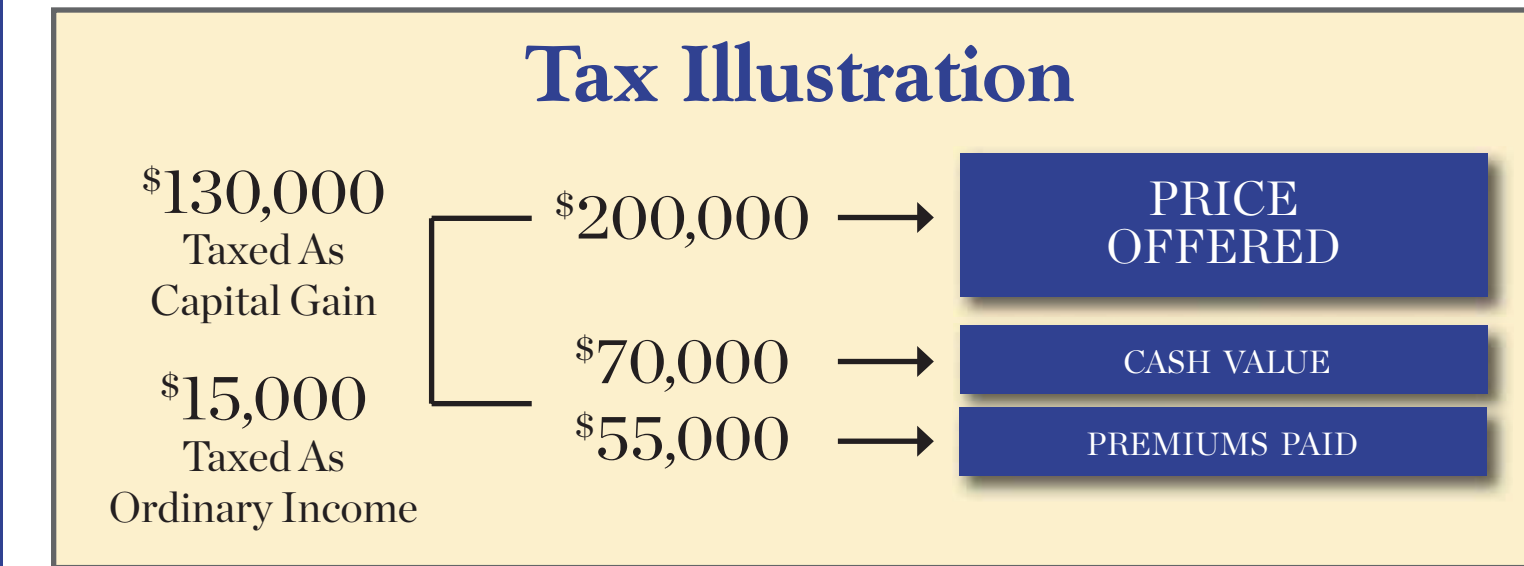
- Rescission Period  
2 weeks

## Deal Closed Fees Paid

\*It can take as few as 4 month or as long as 7 months to complete a settlement.

## Example of Tax Benefits

The following example shows a typical policy with a face value of \$1 million, \$55,000 of premiums paid and a cash surrender value of \$70,000. As an example, a settlement amount of \$200,000 paid to the policy owner will be used. The tax position would be:



\*Tax obligations will vary with the sale of an insurance policy. The presenters do not make any representation as to the tax treatment of a sale of a life insurance policy. We strongly encourage the client to consult with his/her tax advisor, attorney or financial planner as it relates to their specific situation.

## Benefits To Representatives/Agents

- ❖ Helps to meet the financial and estate planning needs of their clients
- ❖ Provides an opportunity to generate additional life insurance and investment products sales for their clients
- ❖ Enables the Representative/Agent to better meet their obligations to their clients
- ❖ Creates a new source of meaningful, incremental income for the Representative/Agent

