



LIFE SETTLEMENT ADVOCACY

NAVIGATING THE NEW WORLD OF LIFE SETTLEMENTS

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A life settlement is the sale of an existing life insurance policy to a third party for less than the death benefit and more than the cash surrender value. However, a life settlement transaction can have many unintended results if not handled with proper expertise. Surprises and potentially unfavorable outcomes can be avoided by working with a proactive Life Settlement Advocacy process and team.

Working alongside your Valmark Advisor and coordinating with an extensive network of high-quality, third-party *institutional* settlement providers, the Life Settlement Advocacy Team provides an enhanced level of evaluation expertise and a formal, written auction process to represent, coordinate, and negotiate your case throughout the settlement process.



OVERVIEW

WHAT IS LIFE SETTLEMENT ADVOCACY?

Life Settlement Advocacy is the art of evaluating, packaging, and negotiating your case to obtain the best possible life settlement offer for your policy.

At Valmark, we leverage our knowledge of how institutional third-party providers make decisions about settlement offers so we can proactively package and position your settlement application in its most favorable light. Life Settlement Advocacy increases the potential for favorable offers through a unique bidding process with multiple providers that adds detail, expertise, and clarity to the process.

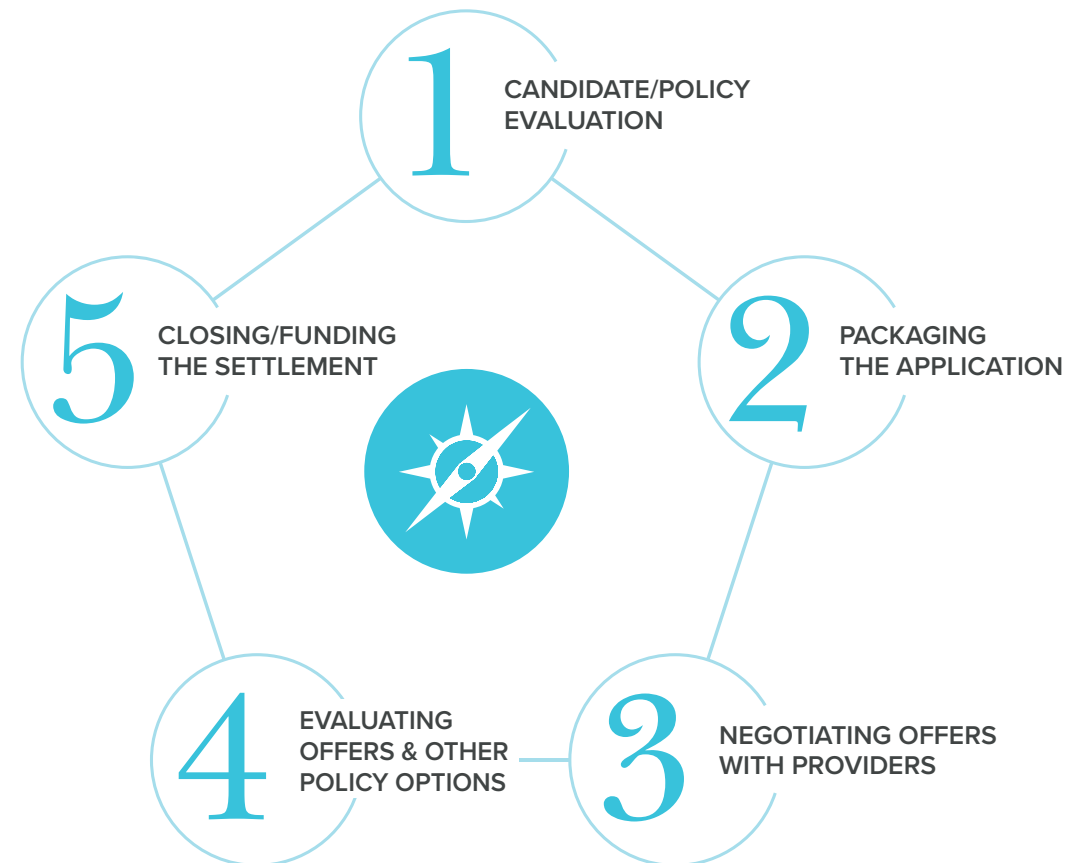
HOW DOES THE PROCESS WORK?

Valmark supervises a life settlement transaction as a security. It is closely regulated and requires a systematic bidding process to ensure the best execution on every transaction. This formal, written auction process:

- Forces all providers to play on the same level playing field
- Awards cases strictly on the merit of the provider making the higher offer
- Requires all offers and compensation to be fully disclosed to the seller
- Requires the broker's compensation to be uniform and capped with all providers to ensure that recommendations are revenue neutral

The discipline of this process allows sellers to be confident they are receiving fair market value for their policies and ensures that only licensed institutional providers are eligible to purchase policies through our program.

When taken together, the five steps in this evaluation, packaging, and competitive bidding process give you greater control in choosing what offer or other policy option is in your best interest.



OVERVIEW

WHEN SHOULD YOU CONSIDER A LIFE SETTLEMENT?

Generally, a life settlement is an option for individuals or businesses who no longer need or want their life insurance policy or may require funds for other needs. The following are examples of situations that may call for the consideration of a life settlement.

- If your insurance company has unexpectedly increased the cost of insurance on your policy making it unaffordable.
- If you think you will likely outlive the maturity date on your life insurance policy.
- Estate tax exemption thresholds have been lowered, making estate planning life insurance unnecessary.
- If funds are needed to focus on personal needs such as retirement, long-term care insurance, or family emergencies.
- If your term policy is nearing the end of a term period, you may want the option to convert to a permanent product and receive, through a life settlement, proceeds for an asset that will terminate if not converted.
- If your business is sold or changes are made that result in insurance no longer being needed.
- If you are an executive who has retired and received unneeded insurance through a deferred compensation arrangement.
- If the policies held within a trust are no longer meeting the original trust plan objectives.
- If your current policy is underperforming, the need for insurance may still exist, but you want coverage that has better guarantees.

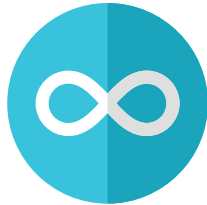
- If you and your business partners have made changes within your Buy-Sell Agreement which makes insurance no longer necessary.
- If you have charitable-owned policies that are under-performing and need to be replaced in order to preserve the benefit to the charity.

ARE YOU A CANDIDATE FOR A LIFE SETTLEMENT?

To determine if a life settlement may be the best potential course of action for your policy, there are several general criteria to consider at the outset.

- Individuals age 70 and older
- Life expectancy of 14 years or less
- Decline in health from original policy issue
- Life insurance policies with a net death benefit of \$250,000 or more (no maximum)
- Policy type: Universal Life, Guaranteed Universal Life, Survivorship Universal Life, Variable Universal Life and Convertible Term (Sometimes Whole Life)
- Owner can be an Individual, Trust, Corporation, Charity or other entity
- Premium should be 5% of the Death Benefit (or less) and Cash Surrender Value should be 15% of the Death Benefit (or less)

ADVOCACY IN ACTION



ADDRESSING THE RISK OF OUTLIVING COVERAGE

An 87-year-old widow owned a \$3 million Universal Life policy purchased 11 years ago for the benefit of her three children. When she received a notice that her policy was due to lapse in one year, and premium payments would more than double in order to keep the policy in force until age 95, she was worried for several reasons:

- She would wind up paying another \$600,000 in premiums to keep her policy in force until age 95.
- With a life expectancy of between 3–5 years, there was at least a 23% chance she would live beyond the maturity of the policy. Consequently, her heirs would not receive any inheritance.

Since the client was uncomfortable with the risk of outliving her policy's coverage, her ValMark Advisor suggested she consider a life settlement as an alternative to paying \$600,000 more in premiums, while still allowing her to leave a sizable legacy to her heirs.

Valmark's Life Settlement Team worked with multiple providers using a competitive bidding process to negotiate settlement offers resulting in a total gross offer of \$1,225,000* (before commissions and expenses) or 41% of the death benefit.



BETTER THE SECOND TIME AROUND

When applying for a life settlement, the first offer is sometimes not the best offer. Working with a professional, securities-supervised broker with a competitive bidding process can make a difference in the final offer you receive.

Example: A former college athlete and owner of a sports supply business, purchased a \$1.5 million Universal Life insurance policy in 2002 for estate planning purposes. When the policy was purchased, the planned premium was \$16,000 per year. An increased premium of \$82,000 per year was now needed to maintain the policy to age 100. The client, now age 64, no longer needed the policy for estate planning purposes and had serious health impairments, reducing his life expectancy to 28–94 months.

Initially, the client was prepared to surrender the policy for the policy's cash surrender value of \$548. However, his attorney and Valmark Advisor recommended that the policy be put through Valmark's bidding process.

The initial settlement offer was \$250,000 which the client was happy to accept. However, by going a step further in the auction process, the Valmark Life Settlement Team negotiated 28 rounds of bids which resulted in a final gross offer of \$815,000* (before commissions and expenses) or 54% of the death benefit.



KEY MAN POLICY NETS BIG RETIREMENT SUPPLEMENT

An 88-year-old retired executive owned a \$360,000 Universal Life policy that was originally a Key Man Policy funded by his previous employer. Upon his retirement, the company had transferred ownership of the policy to him. The policy is considered taxable income based on the value of the policy and resulted in the client having to pay approximately \$40,000 in income taxes.

In addition to the taxes, the executive would be responsible for paying an annual premium of \$23,340 to age 100. The client decided he did not want to pay any premiums going forward and planned to surrender the policy and use its \$93,000 cash value to supplement his retirement. His Valmark Advisor suggested he consider a life settlement as an alternative to surrendering the policy. Life expectancy was estimated at 26–30 months.

Valmark's Life Settlement Team worked with multiple providers to negotiate settlement offers resulting in a total gross offer of \$250,000* (before commissions and expenses) or 69% of the death benefit and 2.7 X the cash surrender value. The end result is that the client was able to leverage his \$40,000 tax payout into a cash payment of \$250,000 through a life settlement.

CONSIDERATIONS

If you are interested in applying for a life settlement for your policy, we recommend first consulting with your insurance, tax, and legal advisors and reviewing the following information.

- 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. 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.
- When an individual decides to sell his or her policy, he or she must provide complete access to his or her medical history, and other personal information, that may affect his or her 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 at a later date.
- Individuals should discuss the taxation of the proceeds received with their tax advisor.
- ValMark Securities supervises all life settlements like a security transaction.
- 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.
- ValMark and its registered representatives act as brokers on the transaction and may receive a fee from the purchaser.
- A life settlement transaction may require an extended period of time to complete. Due to the 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.
- If you are an investor or a buyer of a life insurance policy then you should be aware that:
 - Investment in a life settlement is highly speculative.
 - Although a substantial profit may be realized, a substantial loss is also possible.
 - The death benefit may never be paid.
 - Additional funds may need to be invested to pay premiums if the insured lives substantially longer than expected.
- Securities offered through ValMark Securities, Inc., Member FINRA, SIPC.

**As referenced in the case studies, the gross offer will be reduced by commissions and expenses related to the sale. This material is intended for informational purposes only and should not be construed as legal or tax advice or investment recommendations.*

AN INVITATION

Now that you have a foundation of information about our advocacy approach to life settlements, we invite you to talk with your Valmark Advisor to discuss the next step and determine if a life settlement is the right choice for your policy.

