



PREMIUM SPIKE PROMPTS WIDOW TO SELL POLICY

OFFER RECEIVED DESPITE NO CASH SURRENDER VALUE

THE SITUATION

Rosa Bowman¹ is a 90-year-old widow who purchased two policies totaling \$2.1 million in 2003 for estate planning purposes. Her three children were designated as the owners. After the reduction in estate tax rates, the insurance was no longer needed for estate planning. Also, Rosa and her children received a notice from the insurer that annual premiums on the two Universal Life policies would TRIPLE in order to continue coverage on Rosa to age 100. Neither Rosa nor her children were able to afford the new premiums totaling nearly \$143,000.

Since there was no cash surrender value left in the policy, Rosa and her children were going to let the policy lapse. Their Valmark Advisor recommended that they first consider a life settlement. The life expectancy for Rosa was between 52 months and 69 months.

THE OUTCOME

The short life expectancy and policy dynamics made these policies attractive to our providers. Valmark's life settlement team worked with the client's attorney and multiple providers through the bidding process to negotiate a settlement offer resulting in a total gross offer of **\$750,000² for both policies** (before commissions and expenses).

| SUMMARY | POLICY #1 | POLICY #2 |
|------------------------------|------------------------------|------------------------------------|
| POLICY TYPE | FIXED UNIVERSAL LIFE | FIXED UNIVERSAL LIFE |
| DEATH BENEFIT | \$1,500,000 | \$595,000 |
| CASH SURRENDER VALUE | \$0 | \$0 |
| ANNUAL PREMIUMS | \$102,189 TO AGE 100 | \$40,595 TO AGE 100 |
| LIFE SETTLEMENT OFFER | \$535,000² | \$215,000 GROSS² |

THE TAKEAWAY

In a recent survey, 90% of seniors say they would have considered a life settlement if they knew that was an option rather than just letting their policy lapse³. Life insurance is no longer just security for the beneficiaries; it is a valuable asset for owners that may have more value than its cash surrender value. It is the responsibility of the advisor to educate clients regarding the life settlement option. Consider a life settlement as an alternative to lapsing or surrendering the policy.

¹Client name has been changed to protect confidentiality. | ²The gross offer will be reduced by commissions and expenses related to the sale. | ³Life Insurance Settlement Association, Before Your client Lapses That Life Insurance Policy, Consider the Alternatives – 2015. | 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. This material is intended for informational purposes only and should not be construed as legal or tax advice or investment recommendations. Consult a qualified attorney, tax advisor, investment professional or insurance agent about the issues discussed herein. Securities offered through Valmark Securities, Inc. Member FINRA / SIPC.



LIFE SETTLEMENT DISCLOSURE

- 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.
- When an individual decides to sell their 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 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.
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