



Life Settlement:

Creating Value Out of An
Existing Life Insurance Policy



Presented by
Hosted By

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NAVIGATING THE NEW FRONTIER OF LIFE SETTLEMENTS

Life Settlement Disclosure

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- 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 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.

Life Settlement Disclosure

- Individuals should discuss the taxation of the proceeds received with their tax advisor.
- ValMark Securities considers a life settlement 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 a buyer of a life settlement or an investor 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.

PRESENTATION OVERVIEW

- What is a Life Settlement?
- Guidance For Your Journey
- Staying on the Trail: The Life Settlement Advocacy Program™
- Why Take This Journey?
- The New Frontier
- Case Studies
- Process Timeline
- Conclusion



NAVIGATING THE COMPLEXITY

WHAT IS A LIFE SETTLEMENT?



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LIFE INSURANCE IS A FINANCIAL ASSET?



A life insurance policy is a capital asset just like your home, stocks, bonds, and your retirement account.



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The Life Settlement Opportunity | Facts

- **88%** of Universal Life policies never result in a death claim¹
- **85%** of all Term policies never result in a death claim¹
- More than **20%** of insureds age 65 and over own a life insurance policy with a market value greater than the cash surrender value²

¹ According to leading actuarial firm

² Conning Report 2011

The Life Settlement Opportunity | Facts

- Every day for the next 18 years more than **10,000** baby boomers will reach age 65 ³
- Less than **1%** of the population will pay estate taxes under the new estate tax law (The American Taxpayer Relief Act of 2012) ⁴
- Projected 2021 Life Settlement market potential – **\$154 Billion** ⁵

3. January 2013 – Bureau of Statistics

4. 6th Annual Industry Trends Survey, Wealth Counsel and Trust & Estates

5. Conning 2012 Estimated Figures



GUIDANCE FOR YOUR JOURNEY



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REASONS TO SELL

You no longer need the insurance or might benefit from selling the current coverage and purchasing new coverage.

SELLERS

INSURANCE NEED CONTINUES TO EXIST	INSURANCE NEED NO LONGER EXISTS
Original need has been reduced	Business sold
Current premiums too expensive	Estate value decreased
Replace individual policy with second-to-die policy	Executive retires
Replace with policy on healthier spouse	Buy/Sell funding
Fund new insurance	Liquidity issues
Term Period ends: Convert (keep part and sell part)	Create investment capital





WHAT MAKES A GOOD LIFE SETTLEMENT? CLIENT DEMOGRAPHICS

- Age 70 and over
- Significant health impairments (change in health since policy inception - arbitrage)
- Life Expectancy of 14 years or less
- No longer needs or wants current policy



WHAT MAKES A GOOD LIFE SETTLEMENT? POLICY DEMOGRAPHICS

- Net death benefit: **\$250,000 or more**
(prefer \$500,000+)
- Some caps: \$10MM+
- Policy type: UL, GUL, SUL, VUL,
Convertible Term and sometimes WL
- Premium Flexibility: should be 5% of DB
(or less)



WHAT MAKES A GOOD LIFE SETTLEMENT? POLICY DEMOGRAPHICS

- CSV should be 15% of DB or less
- Riders (age 100, ROP riders)
- Insurance company rating: B+ or better
- Owner can be individual, trust, LLC or corporation
- **Warning:** A life settlement may affect your ability to obtain additional insurance in the future.



THE GOOD

RECOGNIZING FIDUCIARY RESPONSIBILITY



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FIDUCIARY RESPONSIBILITY



WHAT IS TRUSTEE RESPONSIBILITY?

...a trustee – particularly a professional trustee, such as a bank or trust company – is obligated by its fiduciary duty to seek a buyer for that policy. If a buyer can be found, such as a life settlement company, who is willing to purchase the life insurance policy for a fair price, I submit that the trustee should – indeed must – sell it...”▲

BANKING LAW JOURNAL



SIX WAYS TO STAY ON COURSE



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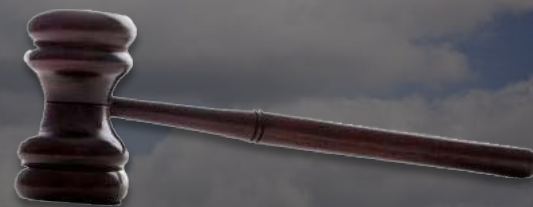
NAVIGATING THE NEW FRONTIER OF LIFE SETTLEMENTS

1. Does the broker you are using treat this transaction as a security?
2. Are the funding sources the company uses exclusively institutional and licensed providers in the state?
3. Does the company work with a number of different licensed life settlement providers?
4. Does the company negotiate through a written, formal bid process?
5. Is the company's compensation uniform and capped with all providers?
6. Are both the offers and the total compensation fully disclosed?

Q1

SECURITY TREATMENT

- FINRA Notice 06-38 – Obligations when recommending or facilitating the sale of an existing variable life insurance policy to third parties.
- We treat all sales of all policies as a security whether or not the policy is a variable policy. Clients are afforded the same protection they receive with any security transaction.
- Simply put, we hold ourselves to a “higher standard” * and we meet the standards set forth in Notice 06-38.




*As compared to most other brokers

Q2

FUNDING SOURCES

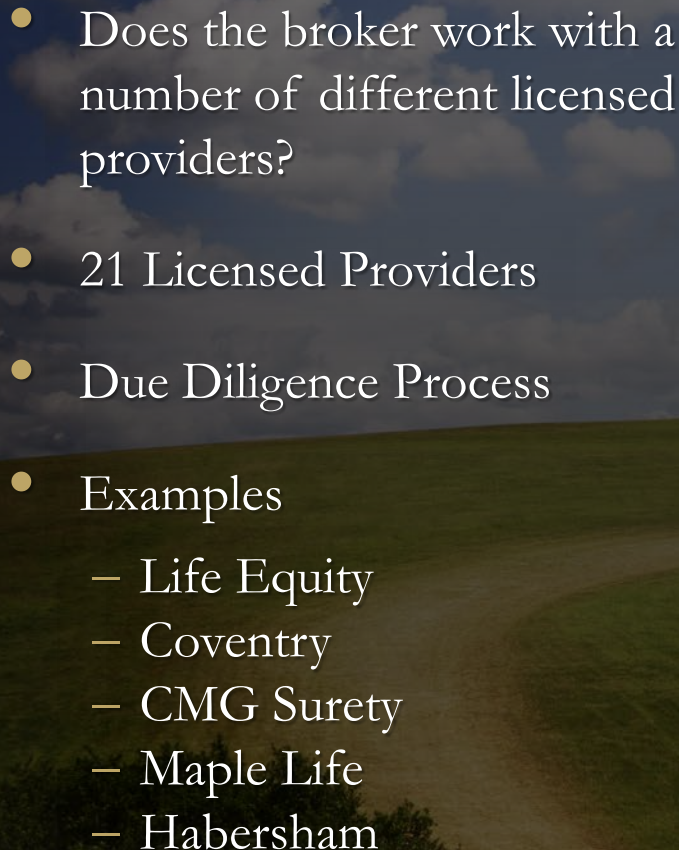
- Are the funding sources the company uses exclusively institutional and licensed providers in the state?
- Examples:
 - RBS (Royal Bank of Scotland)
 - AIG
 - Deutsche Bank
 - Scottish Life
 - BAM – Burdette Asset Management

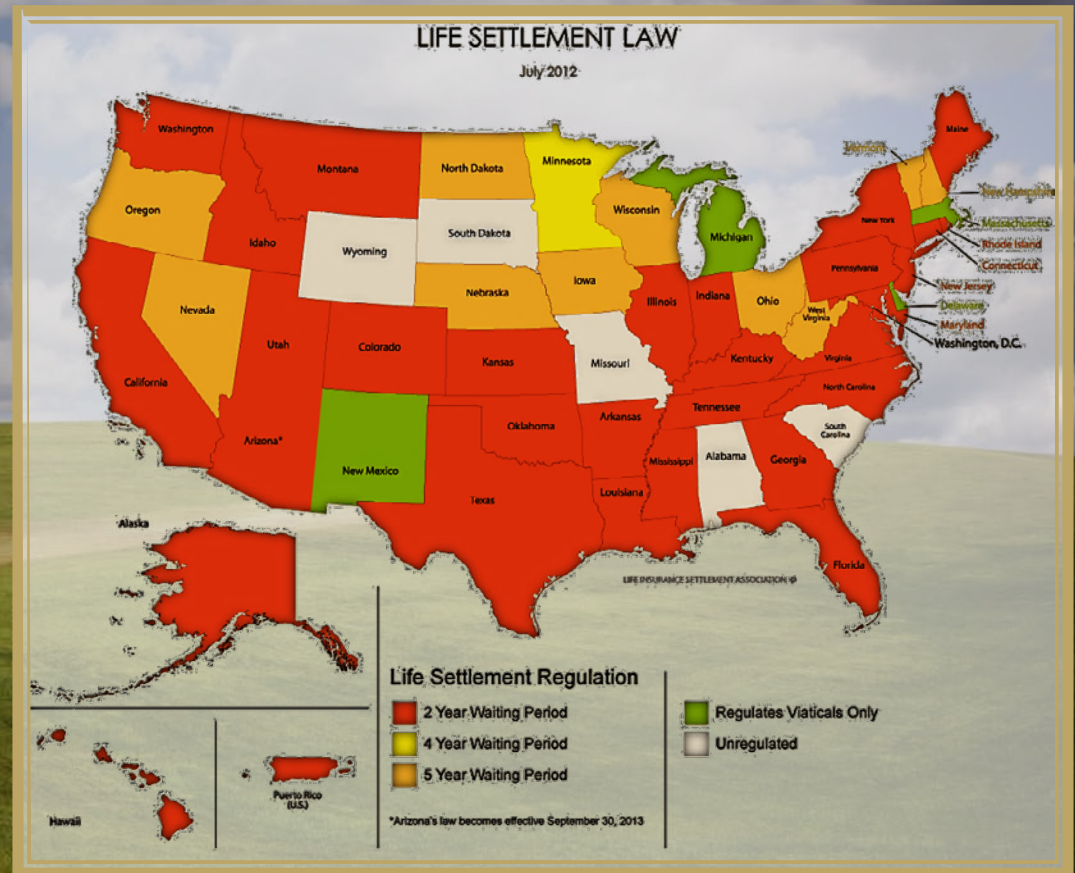




Q3

LICENSED PROVIDERS

- 
- Does the broker work with a number of different licensed providers?
 - 21 Licensed Providers
 - Due Diligence Process
 - Examples
 - Life Equity
 - Coventry
 - CMG Surety
 - Maple Life
 - Habersham



Q4

FORMAL WRITTEN BID PROCESS

- Does Company Negotiate through a written formal bid process?
 - Best Execution (consistent and systematic process)
 - Fair Market Value Offers (definition of auction process)



Q4

FORMAL WRITTEN BID PROCESS

Bidder	Status	Initial	Round 2	Round 3	Round 4	Round 5	Round 6	Round 7	Round 8	Round 9	Round 10
Abacus Settlements, LLC	Closed - no bid submitted										
Berkshire Settlements	Not Submitted. Not licensed MN										
CMG Surety	Closed - no bid submitted										
Coventry First	Open	300,000.00	400,000.00		430,000.00	445,000.00	465,000.00		490,000.00	515,000.00	
Credit Suisse	Not Submitted. No longer bidding										
Fair Market Life Settlements Cor	Not Submitted. Not licensed MN										
Great West Growth, LLC	Not Submitted. Not licensed MN										
Habersham	Closed - can not bid										
Legacy Benefits Corp	Closed - no bid submitted										
Life Equity LLC	Closed - can't beat current offer	100,000.00									
LifeLine	Closed. Not licensed in MN										
Life Policy Traders	Not Submitted. Not licensed MN										
Life Settlements International	Closed - can't bid any higher	265,000.00									
Life Settlement Solutions	Not Submitted. Face amount too lar										
Maple Life Financial (Stonestree	Closed - can no longer compete	285,000.00	395,000.00	410,000.00	432,500.00		460,000.00	475,000.00		510,000.00	525,000.00
Milestone Providers, LLC	Not Submitted. Face amount too lar										
Peachtree Life Settlement	Not Submitted. Face amount too lar										
Portsmouth Financial Group	Not Submitted. LE too long										
Proverian Capital, LLC	Closed - Can't bid										
Q Capital Strategies	Closed - can't beat current high offe	80,000.00									
Magna Life Settlements Inc.	Open	385,000.00		420,000.00		448,500.00		470,000.00	495,000.00		532,000.00



Q5

COMPENSATION

- Is the Compensation **Uniform** and **Capped** with all Providers?
- Maximum total compensation is determined by a 3-tiered formula (the lesser of the following):
 - 6% of Death Benefit
 - 30% of the Gross Offer
 - $\frac{1}{3}$ of the Value Created
(Value Created = Gross Offer minus Cash Surrender Value)



Q6

FULL DISCLOSURE

- Are both offers and compensation fully disclosed?
- Does your broker provide full disclosure even in states that don't require it?

Life Settlement Broker Disclosure

A. Life Settlement Transaction Defined

A life settlement is the sale of a life insurance policy to a third party. As the owner of the life insurance policy, when you sell your policy, you receive an immediate cash benefit. The buyer of your policy becomes the new owner of the life insurance policy, and will keep the policy in force by paying any future premiums. The buyer will collect the death benefit when the person insured by the policy dies.

B. Important Facts You Should Know

1. **Member Office:** is a registered representative of ValMark Securities. Both ValMark Securities and its registered representative(s), collectively acting as brokers on this case, are conducting this transaction in accordance with applicable state insurance law and FINRA regulations as they govern life settlements. As brokers, we competitively shopped this case via formal auction bidding process to multiple life settlement providers who are appropriately licensed as required by each state's Department of Insurance. A summary of the gross offers made by each life settlement provider throughout the auction's various rounds of bidding can be found on the following pages of this disclosure under the section titled "Gross Offer Summary". A vital settlement broker represents exclusively the seller, and not the insurer or the vital settlement providers, and owes a fiduciary duty to the seller, including a duty to act according to the seller's instructions and in the best interest of the seller.

2. If a primary motivation for selling your policy is because of the cash that will be paid for the policy, you should be aware that your policy's insurance company may allow you to take a loan against your policy's cash value. This would allow you to access some of the cash, while keeping your policy in force for your beneficiaries. Also, if your policy has an accelerated death benefit provision, you may be able to receive the policy's death benefit before the insured dies. Policy loans and accelerated death benefits allow you to receive some cash from a life insurance policy without requiring you to sell it to a third party. You should explore these alternatives before selling your policy.

3. The proceeds from the sale of your life insurance policy may be subject to federal and/or state income taxes, franchise tax and subject to the claims of creditors. You should understand that by entering into a life settlement, you are waiving the possible tax free payment of the death benefit and may be required to pay tax on the amount of proceeds received that exceed your basis in the life insurance policy. You may also adversely affect your eligibility to receive Medicaid or any other government benefit or entitlement by receiving proceeds that can exceed the required threshold for government assistance. For more information about these consequences, please consult your tax and/or legal advisor or the appropriate government agency.

4. You have an unconditional right to rescind a life settlement contract for 15 calendar days after you receive the sale proceeds. During this limited period, which is called a rescission period, if the insured dies, the settlement contract may be considered rescinded, subject to the repayment of all proceeds and any premiums, loans, or loan interests paid by the life settlement provider. Your specific terms and rights to rescission are addressed in the purchase agreement (closing contracts) of the life settlement provider purchasing your policy.

5. By entering into the life settlement contract, you and the beneficiaries of your policy will be transferring all rights you may have under the policy to the buyer. Additionally, the life settlement transaction may cause the forfeiture of certain rights and benefits that exist under the policy, such as conversion rights and the waiver of premium benefits. Before you make the final decision to sell your policy, you should address these issues with your insurance or financial advisor.

6. Because the policy being sold will remain in force on the insured's life even after the sale, this will reduce the amount of life insurance that can be purchased on the insured's life in the future due to insurance company capacity limitations. If the funds from this life settlement transaction will be used to purchase a replacement policy, the total amount of life insurance that can be purchased may also be reduced. You should consider the cost of the premiums on the new insurance policy being purchased, compared to those on the policy being settled. If the new premiums are higher, there should be several valid reasons as to why this policy should replace the existing policy.

7. Once the policy is sold, the life settlement provider or an authorized representative of the provider may contact the insured for the purpose of determining the insured's health status and to confirm the insured's residential or business address and telephone number or for other purposes permitted by law. Any such contact shall be limited to once in any three-month period if the insured has a life expectancy or more than one year or to once per month if the insured has a life expectancy of one year or less. The contact should only be made by a provider who was licensed in the state of residence the insured lived at the time of sale or by an authorized representative of a duly licensed provider.

Owner(s) Initials: _____

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Life Settlement Broker Disclosure (cont.)

consideration for representing you in the negotiation and sale of your life insurance policy, total compensation in the form of \$_____ calculated as the lesser of 6% of the death benefit, 23.076% of the gross offer, or 50% of the value of the policy. The total compensation will be paid to ValMark Securities and its registered representative from the proceeds of the gross offer for the sale of your policy. The total compensation will be paid to the broker dealer, ValMark Securities, who will then pass a portion of the total compensation on to the registered representative(s).

You should be aware that a life settlement transaction can take much longer than a typical security transaction. As such, should weight the benefits of selling the policy against all other factors. Transaction cost for the life settlement should be considered when evaluating the sale of the policy. If outside of the surrender penalty period, most life insurance policies do not charge a fee for surrendering and obtaining the cash value.

Before selling your life insurance policy, a proper evaluation of your current income needs, versus those of your heirs, should be conducted. If it is found that your survivors have a greater need, and you do not have a current income, the life settlement transaction should be carefully considered with all your advisors and survivors and have prudent valid reasons, assuming suitability, before proceeding.

All medical, financial, or personal information solicited or obtained by a vital/life settlement provider or vital/life settlement broker about an insured, including the insured's identity or the identity of family member, a spouse, or a friend, or other may be disclosed as necessary to effect the vital/life settlement between the viator (policy owner) and the vital/life settlement provider. If you are asked to provide this information, you will be asked to consent to the use of the information. The information may be provided to someone who buys the policy or provides funds for purchase. You may not be aware of the person to whom this information is being disclosed. You may be asked to renew your permission to use the information every two years and until death. Please note that the buyer has a financial interest in the death of the insured and will need to know the status of your health.

The proceeds of your life settlement will be sent to you (1) pursuant to the contract, (2) according to law, or (3) typically is three (3) business days after the vital/life settlement provider has received written acknowledgment from the viator or group administrator that ownership of the policy or interest in the certificate has been transferred and that the viator has been designated pursuant to the vital/life settlement contract.

18. Acknowledgement and Initials:

I acknowledge that I have read and have had the opportunity to ask about, and fully understand the above disclosures. I have decided that the sale of my life insurance policy is the best course of action for me at this time.

Owner(s) Initials: _____

Life Settlement Broker Disclosure (cont.)

"Gross Offer Summary"

Settlement Provider: Sample Company

Address: _____

Telephone Number: _____

High Bid	Status	Bid Round 1	Bid Round 2	Bid Round 3	Bid Round 4	Bid Round 5
No	Declined					
No	Offer Surpassed	\$400,000.00	\$425,000.00	\$450,000.00	\$475,000.00	
No	Declined					
No	Declined					
No	Declined					
No	Declined					
No	Declined					
No	Declined					
No	Offer Surpassed	\$380,000.00	\$405,000.00			
No	Declined					
No	Offer Surpassed	\$420,000.00				
Yes	High Bidder	\$500,000.00	\$520,000.00	\$540,000.00	\$575,000.00	

19. Initials and Signature:

I read, have had the opportunity to ask about, and fully understand the entire "Broker Disclosure". I decided that the sale of my life insurance policy is the best course of action for me at this time.

Date

Date

I, _____, the form with the owner of the policy and discussed all pertinent aspects of the life insurance policy.

Date

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A dirt road winds through a lush green field under a blue sky with white clouds. The road curves from the bottom left towards the center of the frame. A dark semi-transparent banner is positioned in the upper right, containing the title and subtitle.

CHART YOUR COURSE

THE LIFE SETTLEMENT ADVOCACY PROGRAM™



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The Closing and
Funding Process

6

Discovering Life
Settlement
Opportunities

1

The Client
Decision

5

THE LIFE SETTLEMENT
ADVOCACY PROGRAM™

Evaluating
Potential
Opportunities
PAR - Policy Appraisal
Report Review

2

Generating and
Negotiating Offers

4

Initiating the Life
Settlement Transaction

3



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CASE STUDIES

OF THOSE WHO HAVE TAKEN THIS JOURNEY



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CASES THAT DIDN'T WORK #1

CORPORATE-OWNED POLICY



THE SITUATION

- Corporate-owned policy was no longer needed. Client was going to lapse policy.
- Male age 69
- Policy Type: Term
- Death Benefit: \$5,000,000
- Cash Surrender Value: \$0
- Premium to Convert: \$142,176
- Life Expectancy: 16 years

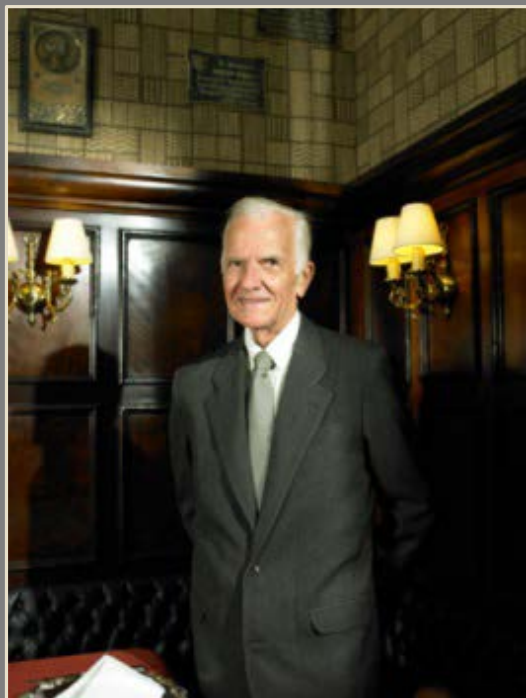
OUTCOME

- We submitted to 8 providers, but no offers were received due to long life expectancy.

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 coverage is no longer needed.

CASES THAT DIDN'T WORK #2

TRUST-OWNED VUL POLICY



THE SITUATION

- Trust-owned policy was no longer cost effective for the client to maintain
- Male age 83
- Policy Type: Variable Universal Life
- Death Benefit: \$1,000,000
- Cash Surrender Value: \$54,000
- Premium: \$88,000
- Life Expectancy: 6-9 years

OUTCOME

- No offers were received. The policy didn't price and there was a possibility of the client surviving beyond policy maturity.

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 coverage is no longer needed.

Closing Remarks

- Be knowledgeable about the life settlement marketplace. Legitimate life settlements may be able to add value if done the right way.
- The New Frontier in Life Settlements means:

STOLI policies are written with less frequency. Litigation and regulation are deterrents to these transactions.
- The secondary market for life settlements has matured since the 1980s. The “Pirates” are disappearing and the “Players” are now the “Good Guys”.



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❖ Any questions?