



LIFE SETTLEMENT CERTIFICATION COURSE

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I. Introduction/Background

A life settlement is the sale of an existing life insurance policy to a life settlement provider. Life settlements are an option for policyholders who determine that their current policy is about to lapse, is underperforming or is no longer needed due to changes in the owner's financial or other circumstances. With a life settlement, a policyholder can convert an unwanted life insurance policy into a lump sum settlement. The average settlement is approximately four times the cash surrender value or 20% to 30% of face value, based upon the marketability factors of the policy.

Life settlements are not for everyone, though. Anyone considering a life settlement should first talk with his or her insurance, financial and legal advisors. Generally, candidates for life settlements are 65 years of age or older and have owned a policy for more than two years. Some settlements also may be available for people younger than 65 under certain circumstances. Life settlements can work with virtually every policy type including term, whole, universal, variable, joint survivorship, and group. Policies may be owned individually, or through corporation, foundation, trust, non-profit organization or business.

The History and Future of Life Settlements

The rise of the life settlement market began shortly following the creation of viaticals in the early 1990's. **By definition, a viatical is the sale of a life insurance policy by an insured who has a terminal illness, and that can be reasonably expected to pay a death benefit within a relatively short amount of time, typically less than 36 months.** Many states vary as to the amount of time in which an illness is considered to be terminal; Pennsylvania, for example, considers 24 months or less terminal, whereas Texas stipulates 48 months or less. The creation of the viatical was a byproduct of the AIDS epidemic of the early 1990's. Individuals who had contracted the AIDS virus often times found themselves in dire financial straits as the cost of medication and treatment spiraled upward. The insurance policy served no good purpose to the insured, as it did not pay out while they were still alive. It could, however, prove to be a viable investment for someone who wanted to provide living benefits for a terminally ill individual while realizing an attractive return on their investment.

In the beginning the viatical marketplace appeared to be bright. Investors were helping those in need, while benefiting from a return on their investment. And, the individual with the terminal illness received the capital they needed to pay for the treatments for their disease. It wasn't long, however, until unscrupulous individuals realized that this was an unregulated market and a hot bed for fraudulent activity. Medical records were falsified to make the insured appear to be closer to their demise than what they really were, and "investors" promised incredible gains on investments that they in turn sold to others, who many times were elderly people who could not afford to lose what they had invested. The sales pitch was simple: "What are the two most certain things in life?" The age old answer was, and still is, *death and taxes*.

Unfortunately, some of these promised returns never became a reality due to the fact that premium payments had to be continued in order to keep the policy in force, and the insured who sold the policy ended up living much longer than what was expected, due in part to false medical information and/or the advent of new treatments for their disease. Others, who claimed to know the business, promised “high returns” and “no risk”, and simply took the money and spent it on themselves. This was, in large part, the reason for the “black eye” the industry suffered early on.

Now, over a decade later, the industry has become more regulated. As of February 2006, 27 states had adopted life settlement legislation, with legislation pending in another 12 states. These new regulations help states keep a “pulse” on the transactions within their state and safeguard against fraudulent activity.

Today, people who need some of the benefits of the life insurance policy before they die, or who have life insurance policies that for whatever reason will otherwise lapse, may want to consider selling their life insurance policy to an established secondary market by way of a “life settlement”. This allows people to get cash out of their life insurance policy, in an amount in excess of the policy’s cash value (if any), while they are still alive.

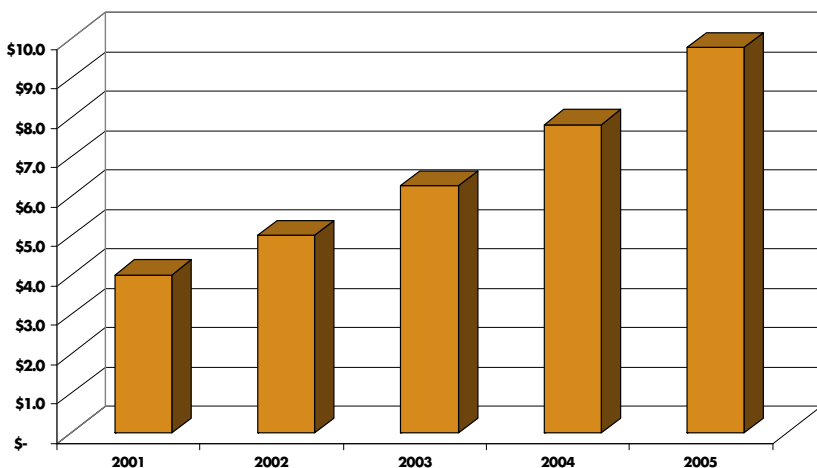
From viaticals came the rise of the life settlement industry. Enterprising individuals realized that billions of dollars in face amount of policies were being lapsed or surrendered simply because the insured no longer needed the coverage, or didn’t want to continue with the premium payments. These contracts (policies) were being sold (or even given) back to the issuing insurance company for a fraction of their true economic value. Should somebody wish to make the premium payments to keep the policy in force, and pay the insured a lump sum value much more reflective of what the policy was actually worth, then that person could become the owner and beneficiary of the policy, and realize its benefits when the death claim is filed. Put it simply, a life settlement allows an owner to sell the benefits of their policy to somebody else (an investor) in order to receive a benefit beyond their cash or surrender value. After the sale of the policy the investor must maintain all premium payments in order to keep the policy in force. It is really just a function of contract law; an insurance contract is being bought and sold much like mortgage contracts are bought and sold.

During the last several years, life settlements have gained recognition as a viable investment vehicle to attract many institutional investors. Institutions investing in life settlements often use “pools” of life insurance policies to create hedge funds. Given the potential for significant rewards coupled with manageable credit risk, it is no surprise that life settlements continue to grow in popularity as an alternative investment vehicle for hedge fund managers. The emerging life settlement market, estimated at nearly \$10 billion in 2005*, gained traction in recent years owing to an infusion of capital from international funds and Wall Street investors who view life settlements as an attractive portfolio diversification strategy with attractive yields. As a non correlated asset class, life settlement portfolios typically contain a selection of policies with a wide range of maturity dates and projected returns from 8% to 15%. Recognizing the market neutral opportunity of an asset class insulated from equity market volatility, new investors are

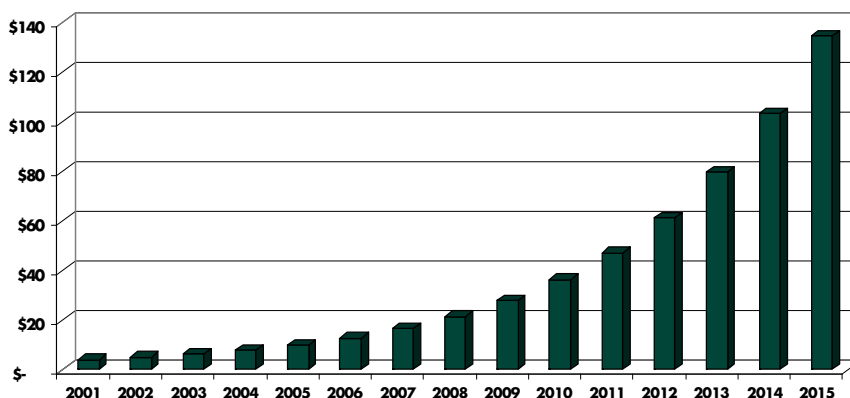
entering the market with aggressive strategies to purchase large pools of life insurance policies. While exact returns are almost impossible to determine from one policy, a pool of policies creates returns based more on the law of large numbers. These returns, while still not exact, can be forecasted based on actuarial data and medical information provided by the insured. The attractiveness to the institutional investor is that a pool of life insurance contracts is not tied to the stock market or any other commonly used benchmark, independent of traditional financial fluctuations.

The future for life settlements as an industry looks promising. An estimated \$490 billion in face value is estimated to have been written on seniors age 65+ according to a 1999 study by Conning. Of this \$490 billion, \$100+ billion is believed to be conducive to a life settlement transaction. In 2002 alone, an estimated \$2 billion in face was settled in the form of a viatical or life settlement. As people become more aware of the alternatives for their life insurance policies, it is almost certain that the industry will continue to grow and life insurance companies will be driven to either pay more for the policies that are in force on their books, or create better suited alternatives for their clients. In the end, one thing is eminently clear; the consumer should ultimately benefit from the proliferation of the secondary market for life insurance.

Size of the Life Settlements Market (in \$Billions)



...And Some Say It Could Top \$125 Billion by 2015



II. Glossary of Terms

The definitions here are generic. Specific states have differing definitions in law.

Viatical Settlement - (from the Latin "Viaticum" (vi-at-i-kum), historically, an allowance for traveling expenses or provisions for a journey.) n. Historically, the proceeds from the sale of a life insurance policy to a third party by a terminally ill individual.

The term today covers the sale by persons who are not terminally ill. Today the term also refers to the sale by a policy owner who may not be the insured individual. This could be a corporation or another family member.

Life Settlement Broker - This means a person who, on behalf of an Owner and for a fee, commission or other valuable consideration, offers or attempts to negotiate Sales Contracts, between an Owner and one or more Providers, the subject of which is a Life Settlement. ***A broker represents only the Owners and owes a fiduciary duty to the Owner to act according to the Owners instructions, notwithstanding the manner in which the Broker is compensated.*** A Broker does not include an attorney, certified public accountant or financial planner retained in the type of practice customarily performed in their professional capacity to represent the Owner whose compensation is not paid directly or indirectly by the Provider.

Life Settlement Provider - This means a Person, other than an Owner, who enters into or effectuates a Sales Contract with an Owner, the subject of which is a Life Settlement. ***A Provider represents the buyer, not the seller, of the life insurance policy.*** A Provider does not include:

- a. any bank, savings bank, savings and loan association, credit union or other licensed institution which takes an assignment of a life insurance policy or certificate issued pursuant to a group life insurance policy as collateral for a loan;
- b. any natural Person who enters into no more than one agreement in a calendar year for the transfer of a life insurance policy, for compensation or anything of value less than the expected death benefit payable under the policy;
- c. a Purchaser;
- d. or any authorized or eligible insurer that provides stop loss coverage to a Provider;
- e. a Financial Entity;
- f. a Special Purpose Entity;

- g. a Related Provider Trust;
 - h. a Broker.
-

Viaticals - A general term referring to transactions in the viatical settlement marketplace.

Viaticate - (vi-at-i-kate) (Historically, to furnish with the provisions necessary for a journey.)
v. To sell a life insurance policy to a third party when the insured is terminally ill.

Viator - (vi'-a-tor) n. A terminally ill person who sells his or her life insurance policy to a third party and receives a lump sum cash payment.

Accelerated Death Benefit - A feature of a life insurance policy that typically pays some or all of the policy's death benefit before the insured dies. It may provide a way to get cash from a policy without selling it to a third party.

Net Death Benefit - The amount of the life insurance policy or certificate to be viaticated less any outstanding debts or liens.

Life Expectancy - The number of months the individual insured under the life insurance policy to be viaticated can be expected to live as determined by the viatical settlement provider considering medical records and appropriate experiential data.

Terminally Ill - Having an illness or sickness that can reasonably be expected to result in death in twenty-four (24) months or less.

Chronically Ill - This means (1) being unable to perform at least two activities of daily living (i.e., eating, toileting, transferring, bathing, dressing or continence), or (2) requiring substantial supervision to protect the individual from threats to health and safety due to severe cognitive impairment, or (3) having a level of disability similar to that described in (1) as determined by the Secretary of Health and Human Services.

Life Settlement - The term today covers the sale, assignment, transfer, devise or bequest of the death benefit or any portion of an insurance policy or certificate of insurance for compensation less than the expected death benefit of the insurance policy or certificate. A

Life Settlement also includes a loan or other lending transaction secured primarily by an individual or group life insurance policy or death benefit other than a loan by a life insurance company pursuant to the terms of the life insurance contract, or a loan secured by the cash value of a policy. It also includes an agreement to transfer ownership or change the beneficiary designation at a later date regardless of the date that compensation is paid to the seller.

Owner - This term means the Owner of a life insurance policy or a certificate holder under a group policy. The term "Owner" does not include any Provider or other licensee.

Insured - This term means the person covered under the policy being considered for viatification.

Purchase Agreement - A Contract or agreement entered into by a Provider with a Purchaser, to which the Owner is not a party, to purchase a policy or an interest in a life insurance policy, or acquire a beneficial interest, or a certificate issued pursuant to a group life insurance policy.

Sales Contract - This is a written agreement entered into between a Provider and an Owner, the subject of which is a Life Settlement. Sales Contract also includes a written agreement for a loan or other lending transaction, secured primarily by an individual or a group life insurance policy, other than a loan by a life insurance company pursuant to the terms of the Sales Contract, or a loan secured by the cash value of a policy.

Financing Entity - An underwriter, placement agent, lender, purchaser of securities, purchaser of a policy or certificate from a Provider, credit enhancer, or any entity that has a direct ownership in a policy or certificate that is the subject of a Sales Contract, but:

1. whose principal activity related to the transaction is providing funds to effect the Life settlement or purchase of one or more policies: and
2. who has an agreement in writing with one or more Providers to finance the acquisitions of Sales Contracts.

Financing Entity does not include a non-accredited investor or Purchaser.

Financing Transaction - A transaction in which a licensed Provider obtains financing from a Financing Entity including, without limitation, any secured or unsecured financing, any securitization transaction, or any securities offering which either is registered or exempt from registration under federal and state securities law.

Special Purpose Entity - A corporation, limited liability company, or other similar entity formed solely to provide either directly or indirectly access to institutional capital markets to a Financing Entity or Provider.

Related Provider Trust - A titling trust or other trust established by a licensed Provider or a Financing Entity for the sole purpose of holding ownership or beneficial interest in purchased policies in connection with a Financing Transaction. In order to qualify as a Provider Trust, the trust must have a written agreement with the licensed Provider under which the licensed Provider is responsible for ensuring compliance with all statutory and regulatory requirements and under which the trust agrees to make all records and files relating to life settlement

transactions available to the Department of Insurance as if those records and files were maintained directly by the licensed Provider.

Secondary Markets – These markets do not include a “Provider”, a “Purchaser”, a “Financing Entity”, or a “Special Purpose Entity”, but rather does include any Person who is a qualified institutional buyer or accredited investor (as defined, respectively, in Rule 144A or Regulation D, Rule 501, promulgated under the Securities Act of 1933, as amended.)

Escrow Agent - means a state or federally regulated financial institution organized under the laws of the United States or any state, whose responsibilities include accepting investor funds, transferring funds in order to purchase policies, paying insurance premiums and receiving death benefits for all policies where Viatical Investors are not the beneficiaries.

III. Marketability versus Suitability

Prior to recommending any course of action, advisors should take extra effort in **determining suitability** for their clients. Suitability for Life Settlements should be viewed in the same manner as assessing suitability for an investment client – know your client as described by the NASD. This includes the consideration of various factors, including age, financial situation, the overall need for life insurance, risk tolerance, and other personal circumstances and investment objectives. Assess and determine if the sale of the life policy is in the best interests of your client.

DO NOT CONFUSE SUITABILITY AND MARKETABILITY. Since the Life Settlement process focuses on the marketing of an insurance policy, the marketability or value of the policy to an investor can sometimes be confused with suitability. For example, a policy may meet the investment criteria of an investor and so the policy is considered marketable.

Because the policy is marketable to an investor does not mean that a sale of the policy is suitable for the client.

A review of the client’s overall financial situation including life insurance needs, estate needs, income and liquidity is a minimum requirement in assessing suitability. A client with no estate needs or those who have estate and liquidity needs with no other sources of liquidity might benefit from a life settlement.

If a policy is about to lapse, there are other considerations such as alternative sources of income or alternative premium payment sources that might be recommended.

Registered representatives should determine if the policy being considered for sale qualifies for an accelerated death benefit. An accelerated death benefit pays part of a policy's death benefit, minus any outstanding policy loan, before the death of the insured. This is useful for

policyholders who want to use only a portion of the death benefit and leave the balance to their heirs.

Be thorough, discuss all options and document.

Reasons To Consider a Life Settlement Transaction for Your Client:

- Insurance needs have changed
- Policyowner has outlived intended beneficiaries
- Purpose was pension maximization and spouse has predeceased insured
- Debts have been liquidated
- Policy has not performed as expected

Need For Life Insurance No Longer Exists:

- Current policy about to lapse or Premium Payment not affordable
 - Concerned about long-term care needs and expenses
 - Retirement planning concerns due to challenging economy
-

Replacement Insurance Is Desired:

The proceeds from a life settlement transaction can be used to purchase a new, more appropriate efficient and cost effective life insurance policy.

- Non-performing policies
- Single insured to second to die
- Reappearing premiums

Estate Needs Have Changed:

- Estate tax laws have changed

- Estate has become more liquid
- Estate has diminished in value
- Second-to-die policy may be more appropriate

Cash Or Income Needs Have Changed:

- Policyowner needs more income
- Policyowner wants to pay off debts
- Policyowner needs funds for medical care, assisted living expenses or LTC insurance

IV. Policy Qualifying Worksheet

The following form is intended as a tool to quickly assess whether a life policy is marketable to an investor.

Part One – The Client Name: _____

- | | | |
|--------------------------|----------|--|
| <input type="checkbox"/> | 1 point | Male aged 70 or younger or female aged 73 or younger |
| <input type="checkbox"/> | 2 points | Male aged 70 to 74 or female aged 73 to 77 |
| <input type="checkbox"/> | 3 points | Male aged 75 to 79 or female aged 78 to 82 |
| <input type="checkbox"/> | 4 points | Male 80 or older, female 83 or older |
|
 | | |
| <input type="checkbox"/> | 1 point | In good health |
| <input type="checkbox"/> | 2 points | Minor health problems |
| <input type="checkbox"/> | 3 points | Significant health problems |
| <input type="checkbox"/> | 4 points | Has a major health condition |

Part Two Total Score:

If the total score exceeds FOUR points please continue to Part Two

Part Two – The Policy

- 1 point Term (non-convertible) or Whole Life (non-participating)
- 2 points Whole Life (participating) or Joint Survivorship
- 3 points Term (convertible)
- 4 points Universal life or joint survivorship with one deceased

- 1 point Cash value exceeds 30% of death benefit
- 2 points Cash value 20 - 29% of death benefit
- 3 points Cash value 10 - 19% of death benefit
- 4 points Cash value less than 10% of death benefit

- 1 point Loan value exceeds 30% of death benefit
- 2 points Loan value 20 - 29% of death benefit
- 3 points Loan value 10 - 19% of death benefit
- 4 points Loan value less than 10% of death benefit

- 1 point Premiums exceed 7% of death benefit annually
- 2 points Premiums are between 5% and 7% of death benefit annually
- 3 points Premiums are between 3% and 5% of death benefit annually

- 4 points Premiums are less than 3% of the death benefit annually

Part Two Total Score:

Less than 10 points: Would need a score of 5 or greater in Part One to qualify
10 to 13 points: Has a good possibility to work
14 points or greater: Have the client complete the application

NOTE:

- Currently there is a market for policies with Life Expectancies of **up to 15 years**.
- Policies with cash value greater than **35% of face** would most likely not be a candidate unless it is a Universal Life and cash could be stripped out, reducing the death benefit.
- Policies with premiums **greater than 6.5% of face** are generally difficult to sell, unless insured's life expectancy (LE) is relatively short.

V. Case Studies

Examples of Life Settlement Transactions

Case History 1

Client: 88 year old male & 84 year old female, good health.

Result: \$2,100,000 joint survivorship policy with no cash value. The policy was no longer required and was going to lapse. Insured sold the policy and received \$600,000.00.

Case History 2

Client: 72 year old male with health complications.

Result: \$1,000,000.00 UL policy with small cash value. Insured sold the policy and received \$180,000.

Case History 3

Client: 83-year-old female in relatively poor health.

Result: \$4,000,000.00 policy with an annual premium of \$168,000.00 which was no longer affordable. Insured received \$1,360,000.00.

Case History 4

Client: 76-year-old male with minor health problems.

Result: \$1,700,000 policy about to lapse. The owner could not afford to keep the policy in force and received \$275,000.

Case History 5

Client: 81-year-old male in relatively good health.

Result: \$260,000.00 policy with an annual premium of \$10,300.00. Insured sold the policy for \$83,200.00.

Case History 6

Client: 78-year-old female in relatively good health.

Result: \$1,000,000.00 policy with an annual premium of \$84,000.00. Insured sold the policy for \$160,000.00.

Case History 7

Client: 76-year-old female in relatively poor health.

Result: \$2,000,000.00 UL policy with an annual premium of \$110,000.00. Insured sold the policy for \$325,000.00.

VI. Taxation

Life settlements often carry tax implications. The following information is generally understood as the tax implications of a life settlement. Clients should speak with their legal and financial advisors for a thorough analysis before making any life settlement decision.

Not Taxable – The amount of the settlement that equals the cost basis (the aggregate amount of premiums paid into the policy) is not taxable.

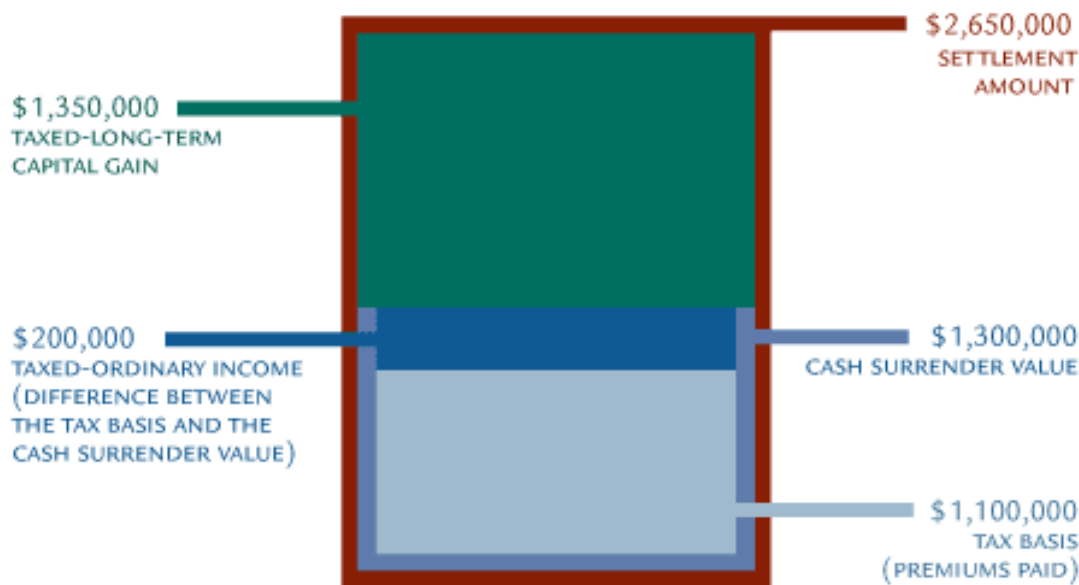
Ordinary Income – The amount in excess of the cost basis up to the cash surrender value (the amount client would receive from the insurance company if they were to surrender their policy) is taxed as ordinary income.

Capital Gain – The amount of life settlement greater than the cash surrender value is taxed as capital gain

Case Example:

- \$10 million Face Amount
- \$1,100,000 Cumulative Premiums Paid
- \$1,300,000 Cash Surrender Value
- \$2,650,000 Settlement Amount

TAX CONSEQUENCES TO SELLER ASSUMES NO REPLACEMENT INSURANCE



VII. The Life Settlement Process

Life Settlements have become a very valuable financial planning tool for seniors who own life insurance and may have a change of circumstances since the original purchase of their life insurance. When the primary need for life insurance no longer exists, a life settlement can be a viable solution.

SUBMIT APPRAISAL APPLICATION

All that is initially required for the client to receive a “no cost, non binding appraisal” of their life insurance is the completion of a 4-5 page application which includes signatures on a HIPPA medical release and life insurance information release. The information is sent to a Life Settlement Broker.

ONCE THE COMPLETED APPLICATION & RELEASE FORMS ARE RECEIVED:

- 2-3 weeks to collect medical records & letter of competency from the insured’s physician(s), clinics, hospitals, etc., as well as verification of coverage and illustrations to policy maturity from the carrier. (help with illustrations is often requested of the agent).
- Once the above information has been obtained, the case is sent by the Broker to licensed Providers for their due diligence. Providers are selected based on buying models & state licensure requirements

- When medical records are received, they are scanned & electronically forwarded to a third party underwriter who estimates a life expectancy on the insured. Turnaround is 3-4 weeks.
 - 1-2 weeks for the Provider to perform their due diligence on the case and to either make an offer or decline the case.
 - If there is more than one offer, a competitive bidding atmosphere can occur and take 2-3 days before the highest offer is obtained. This is coordinated by the Broker.
-

ONCE OFFER IS ACCEPTED

- Contracts are overnighted by the Broker to the agent or client showing offer and funding source in writing.
 - Once contracts are executed and returned, 2-3 weeks for change of beneficiary forms to be sent and recorded by the insurance carrier. Time dependent on the insurance carrier.
 - 72 hours for escrow to release funds to your client. During this time all documents, applications, policy and originals policy application are checked for accuracy.
 - Client has a 15 day rescission in most states.
-

LIFE SETTLEMENT SUBMISSION CHECKLIST:

- Price Commitment (minimum required to receive a commitment to purchase)
- Completed, Signed and witnessed application including:
 - Insured data; full name, address, DOB, SSN
 - Policy Owner; full name, address
 - Policy information including insurance company, policy number, face amount, premium amount and due date, issue date, type of policy
 - Current signed medical authorization (if survivorship, one for each insured)
 - Physicians information; full name, address, telephone and fax numbers for ALL physicians seen in the past 5 years
 - Complete current inforce illustration (prepared within the last 30 days and containing all pages. Please confirm maturity age)

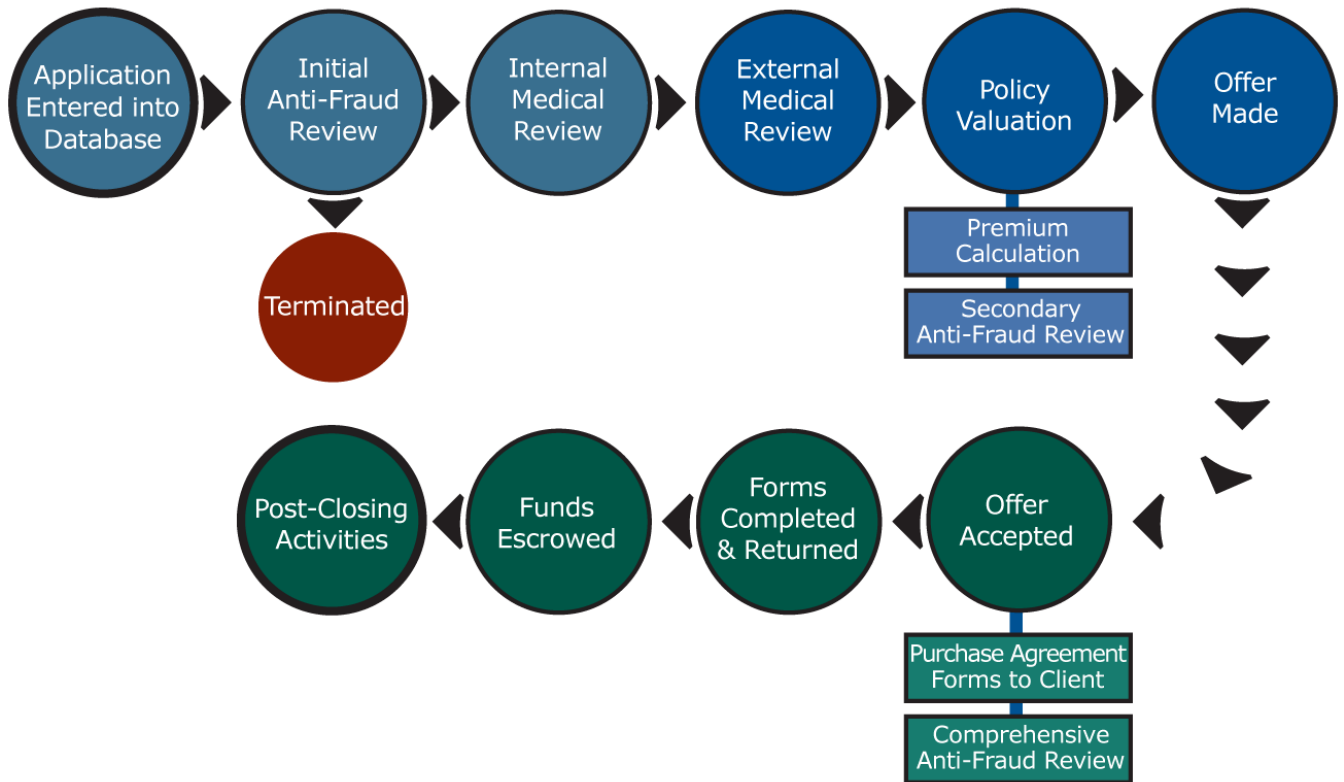
- UL, VUL, Second to Die - reflect level premium for all years to have \$1,000 of cash value at age 100 (or maturity)
- Term – reflect premium stream to maturity. If convertible, show post-conversion illustration with premium and cash value parameters described above
- If Trust Owned, copy of trust documents, Tax. i.d. number
- Divorce decree, if applicable
- If owner or beneficiary is a corporation:
 - Complete name and address of corporation
 - Corporate resolution showing current authorized officers
 - Two corporate officers to sign the life insurance policy information release form

Other (not required but desirable)

- Copy of the policy
- Policy Statement or Annual Report

If the above-mentioned is provided at the time of submission, processing time can be dramatically reduced. In addition, please let us know whether the case is complete or if additional information is to follow (i.e. APS's and/or illustration, or if medical records and/or illustrations need to be ordered).

Life Settlement Underwriting Process



➤ ***Please note that if fraud is suspected in any part of the underwriting process (including the original policy), the suspected fraud will be reported to the appropriate authorities.***

VIII. Frequently Asked Questions

Q: What are examples of changing life circumstances that would motivate a policyholder to sell the life policy?

Life Settlements are not appropriate for everyone, but can be beneficial for particular policyholders based on their financial situation and estate and liquidity needs. Examples of such situations might involve the following scenarios:

- Family dynamics or financial circumstances have changed, and the policy is obsolete or no longer needed for its original purpose.
 - The policyholder determines that he/she can purchase a better-performing policy with today's more affordable premiums (due to a change in the mortality tables indicating seniors are living longer.)
 - Policyholder can no longer afford the premiums, and wishes to use the life settlement proceeds toward replacement coverage that will lower or eliminate premiums.
 - The beneficiary for whom the policy was purchased is deceased.
 - The policyholder wishes to remove a policy from an estate due to a reduction in size of the projected tax liability.
 - The sale of the policy would allow the policyholder to replace an individual policy with a more appropriate insurance or investment vehicle.
 - A key-man policy is no longer needed due to retirement or change in business structure
 - Policy owner wishes to provide cash gifts to family members
 - To provide funds for charitable giving
 - To purchase or invest in another business
 - To fund protracted litigation or attorneys fees
-

How does the process work?

1. An application, authorization and disclosure form is completed
 2. Attending physician statements (APS's) and in-force illustrations are obtained
 3. The highest possible offer is negotiated using multiple Provider firms
 4. The offer is submitted for acceptance
 5. Once accepted, a contract is sent out for signatures
 6. Immediately upon receipt from the owner of documents to affect the transfer of the insurance policy, the life settlement provider shall pay the proceeds of the settlement to an escrow or trust account managed by a trustee or escrow agent in a bank approved by the Commissioner, pending acknowledgement of the transfer by the issuer of the policy. The trustee or escrow agent shall be required to transfer the proceeds due to the owner immediately upon receipt of acknowledgement of the transfer from the insurer in compliance with applicable state law.
-

What general criteria is used to determine the value of a life settlement?

There are many factors that are evaluated to determine the amount of a life settlement. Some of those factors include (with generally preferred levels indicated):

- The gender, age and medical condition of the policy holder – (Age 65 and older)
- Size of the policy; cash value; loans; ownership structure, etc. – (Face \$250,000 and up)
- Premium costs
- Life expectancy – (25 to 144 months)
- Cash Surrender Value
- Rating of the carrier – (BBB and higher)

What are the tax implications for the Seller?

Although the following information is not intended to substitute for the advice of a tax expert or CPA, generally, the tax structure is as follows:

- Zero tax on the basis amount of the policy. (The basis represents premiums paid into the policy.)
- Ordinary income tax on earnings above the basis. (The combination of the basis and earnings is known as the cash surrender value.)
- Capital gains tax on the amount in excess of the cash surrender value.

One of the questions often asked is, “how do providers protect the identity of clients whose policies they have purchased?”

Under the privacy and information security requirements required by the Gramm-Leach-Bliley Act, all investment advisers, broker dealers and certain financial institutions must adopt policies and practices protecting the privacy of nonpublic personal information which such firms collect from their clients. Provider and broker firms have adopted privacy and information security procedures and must inform employees of the firm of the importance of maintaining the privacy of a client's information. These provider firms must furnish client's with initial and annual privacy notices. In addition, if the firm shares nonpublic client information with third parties, (e.g. auditors, accountants, consultants, etc.) then it is necessary to enter into an agreement that provides (or include in any existing contract) that such third party will only use the information to perform the services for which they have been hired and will not reveal the information to any other parties. As a part of our due diligence, AMC requests from the funders a copy of their most recent privacy policy and notice of informational practices.

What types of policies are acceptable?

- Universal Life
- Whole Life
- Term
- Buy-Sell
- Corporate/Company Owned Life Insurance (COLI)
- Bank Owned Life Insurance (BOLI)
- Variable Universal Life
- Key man

What if your client still needs coverage?

Your client might consider converting an older, high premium or under performing UL policy into a newer possibly less expensive policy. People are living longer. This has caused a revision of the insurance company Commissioner's Standard and Ordinary Mortality Table that is used to establish insurance premium rates. Therefore, if the insured's health has remained relatively constant, it is sometimes possible to buy new insurance at less cost than just a few years ago

Does my state regulate life settlements?

Life settlements are regulated by most state insurance departments. Some states have enacted statutes addressing the sale of all life insurance policies. Other states have laws that only regulate the sale of life insurance policies insuring individuals with a life expectancy of less than 24 months. Still others do not regulate the transaction at all. Of those states that regulate the transaction, most require the broker and provider to be licensed. **It is critical for you understand the licensing and disclosure requirements**

of your State Insurance and Securities Departments prior to engaging in life settlement activities.

What happens to the policy after my clients sells it?

All rights and obligations of the policy are transferred to the new owner. The client will no longer be responsible for making premium payments on the policy, the new owner will continue the premiums. The new owner will also name a new beneficiary of the policy who will eventually collect the death benefit.

Does my client have to sell all of the policy?

No. Your client can sell all of their policy or they can sell only a part of the policy. If they sell only a part, your client will be required to assign or transfer only the part being sold. Your client will remain the owner and be required to continue the new amount of premium payments on the portion not sold. If the entire policy is sold, the provider will become the new owner of the policy. This action will transfer premium payment responsibility to the new owner.

Is there a difference between a broker and a provider representative?

Yes. Although both a broker and a provider representative will help you with the sale of your policy, there are important differences between them. A broker works for you, while a provider representative works for the buyer. A broker will negotiate with several providers to find the best offer for you. A provider representative works for one provider. A provider representative will only check with the provider that he or she works with to obtain an offer. If you use someone to help with the sale of your policy, you should determine whether they are a broker or a provider representative.

Is the provider, provider representative, or broker required to keep my clients information confidential?

Yes, any financial, medical, or personal information obtained by a provider, provider representative, or broker about the client, their family members, spouse, or a significant other, may not be shared with anyone unless the client has given written approval. Any written approval for the sharing of this information must show who is allowed to receive the information and why it will be released.

What if the client changes their mind?

If the client changes their mind about selling a policy, they can cancel the life settlement contract at any time up to the 15th day (in most states) after receiving the money from the provider. If your client changes their mind, remember to arrange with the provider to have the insurance company transfer the ownership of the policy back to the client. The guidelines for the rescission period will be explained in detail in the life settlement purchase and sale agreement, which can vary on a state by state basis.

What if the client dies shortly after selling their policy?

If the client dies at any time during the rescission period after receiving the money from the provider, the settlement contract will automatically cancel. The provider will pay the owner of the policy or beneficiaries designated by the owner in the life settlement contract any proceeds it receives from the client's policy, minus any money it already paid for the purchase of the policy and any premiums it paid to the insurance company to keep the client's policy current. The insurance company or the provider should refund any unearned premiums paid.

What happens after the client receives their money?

After the provider has paid the owner for the sale of the policy, they may occasionally check on the status of the life settler. If the client does not want to be contacted, they may appoint an adult person or persons to be contacted on their behalf. That person must be in regular contact with the client and the client must give the provider their name, address and phone number. Once the client gives the provider this information, the provider may not contact the client unless they have tried and have not been able to reach the client's contact person for more than 30 days. If necessary, the client can change their contact person at any time by sending a written notice to the provider.

What if clients don't want to be contacted about their health status?

If clients do not want to be contacted about their health status, they may appoint an adult person or persons to be contacted on their behalf. That person must be in regular contact with you and you must give the provider their name, address and phone number. Once you give the provider this information, they may not contact you unless they have tried and have not been able to reach your contact person for more than 30 days. If you need to, you can change your contact person at any time by sending a written notice to the provider.

How will I know who will be calling me or my contact person about my health status and how often can they call?

The provider must give you the name, address, and phone number of the person who will be contacting you or your contact person(s) about your health status. If your life is expected to end in one year or less, contacts to check on your health status are limited to once every 30 days. If you are expected to live for more than one year, contact is limited to once every three months.

Will the provider be calling the client's doctor to check on health status? Some providers will use the signed medical release form to check with the client's doctor for updates on health

status. The medical release form tells the doctor that the client wants the doctor to give medical information to the provider, their broker, or provider representative. If the client decides they do not want the provider to contact their doctor, the client has the right to withdraw your medical consent in accordance with law.

How will the client know if their policy includes extra coverages like accidental death, future increases in the death benefit, or covers other family members? Do these affect their settlement?

Some policies contain extra coverages. Clients may want to contact their insurance company or agent to see if their policy contains a provision or rider providing extra coverages. If the policy includes a benefit for accidental death, the additional death benefit may not be included as part of the settlement. The additional death benefit may remain payable to the client's beneficiaries or their estate. If the policy provides future increases in the death benefit, the client may want to ask how much the provider is paying the client for the purchase of this benefit. If the policy is a joint policy, or provides coverage on the lives of other family members or anyone other than the client, there may be a possible loss of coverage.

Are there other options available to the client besides selling their policy?

The insurance company may offer options, such as accelerated death benefits, loans, and surrender of the policy for its cash value. Before entering into a life settlement, clients should contact their insurance company or agent to see what options are available

Why is Institutional funding for Life Settlements important?

Life settlements provide maximum protection from the fraudulent practices and personal privacy risks that too often plagued the Viatical industry. The recent cases involving individual investor fraud have made clear the importance of large investors, which are experienced risk and case managers. Moreover, individuals are ensured greater privacy protection throughout the life of the policy. The influx of institutional sources of capital has expanded the life settlement market. This results in significant benefits to policyholders, life insurers and investors themselves. These sophisticated financial investors, including multi-national banks, international corporate conglomerates and global insurance companies, offer policyholders maximum value in a competitive market.

LIFE SETTLEMENT CERTIFICATION QUIZ

1. Life settlement transactions do not apply to Term policies.

True_____ False_____

2. Proceeds from a life settlement transaction cannot be used to purchase new, more appropriate life insurance policy.

True_____ False_____

3. Which person would be the best candidate for a life settlement transaction?

- a) Healthy 64 year old male with a \$1,000,000 UL policy with \$20,000 annual premiums and \$30,000 cash.
- b) Healthy 76 year old female with a \$1,000,000 UL policy with \$65,000 annual premiums and \$30,000 cash.
- c) Healthy 76 year old male with a \$1,000,000 UL policy with \$25,000 annual premiums and \$30,000 cash.
- d) Healthy 76 year old male with a \$1,000,000 UL policy with \$28,000 annual premiums and \$360,000 cash.

4. If a policy is owned by an entity or person other than the insured, who signs the application?

- a) Insured
- b) Owner
- c) Neither
- d) Both insured and owner

5. What is the expected time frame from receipt of a correct application to closing of a life settlement transaction?

- a) 1-2 weeks
- b) 4-6 weeks
- c) 6-12 weeks
- d) 1 year

6. In most states, how many days does the seller of a life policy have to rescind a life settlement transaction?

- a) 15 days
- b) 5 days
- c) 25 days
- d) 45 days

7. Tax consequences to the seller of the life settlement amount above the cost basis and cash surrender value is?
- a) Ordinary income
 - b) Long term capital gain
 - c) Short term capital gain
 - d) Non-taxable
8. If a client selling their life insurance policy has gone through a divorce, is a copy of the divorce decree needed to close the transaction?
- a) True
 - b) False
9. What is needed to close a life settlement transaction for a policy owned by a trust?
- a) Copy of the trust document
 - b) Tax ID number for the trust
 - c) Trustee(s) to sign the application and closing documents
 - d) All the above
10. Currently, what is considered the maximums regarding life expectancy, cash surrender value and premium percent for a policy to be considered "sellable"?
- a) 10 year LE, 25% cash, 3% premium
 - b) 15 year LE, 35% cash, 6.5% premium
 - c) 20 year LE, 40% cash, 8% premium
11. Factor(s) that affect the amount of settlement that a policyowner might receive is/are:
- a) Life Expectancy
 - b) Amount of required premium payments
 - c) Policy type and rating of the carrier
 - d) All the above
12. Which of the following represents the policy owner in a life settlement transaction?
- a) A life settlement provider
 - b) The life settlement broker
 - c) The domicile state Dept. of Insurance
 - d) All of the above

13. Once I have identified a life settlement client, have reviewed their policy and explained the details of a life settlement option and helped them complete an application, where do I send the paperwork?

- a) Foresters
- b) CFM
- c) Policy Beneficiary

14. How much does it cost the client to have an appraisal done for their policy?

- a) \$395.00
- b) \$250.00
- c) \$600.00
- d) \$0

15. Who are the most likely ultimate owners and beneficiaries of a sold policy?

- a) An individual named Joe living in Montana
- b) Any single or group of private investors
- c) Trust arrangement between a large US bank and institutional investment companies
- d) The U.S. Government

16. Does my state regulate Viatical and /or Life Settlements and if so what department is doing the regulations?

- a) Most states do not regulate this
- b) The SEC regulates this nationwide.
- c) Most states regulate this through state insurance departments.

17. If someone knowingly presents false information in a life settlement application, contract or agreement, could this be considered a crime and be subjected to fines and confinement in prison?

- a) yes
- b) no

18. If CFM uncover fraud in a life settlement application, contract or agreement OR find suspected fraud in the policy being appraised for sale, what is our MANDATORY responsibility?

- a) hide the file behind the copy machine.
- b) Send the file back to the agent.
- c) Process the case as normal
- d) Report the suspected fraud to the proper authority.

19. Is a medical examination required to qualify for a life settlement transaction?

- a) yes
- b) no

20. Do HIPAA laws govern any part of the life settlement process?

- a) yes
- b) no

21. Which of the following statements is true?

- a) Life Settlement is a product I can present to all my clients.
- b) Life Settlements is not a product I sell; it is a service I provide to eligible clients.
- c) Life Settlements is a product I can present to all my senior clients
- d) Life Settlements is a service that can provide to all my clients

22. A \$1,000,000 policy with a cost basis (total premiums paid) of \$120,000 and a cash value of \$75,000 is sold for \$220,000; what amount is taxed to the former owner(s) as long term capital gains?

- a) \$780,000
- b) \$220,000
- c) \$75,000
- d) \$100,000

23. Does a client have the opportunity to sell part of a policy?

- a) Yes
- b) No

24. Which statement is true?

- a) A life settlement broker works for the owner of a policy
- b) A life settlement provider works for the owner of a policy

**Please write your name below
and FAX completed test to:
Carole Reisch – FFP Business Center
661 295 4661**

Submitted by: _____ **Date:** _____
(please print)