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DON'T SETTLE FOR LESS

From retirement income to long term care and other pressing cash-flow needs, why **LIFE SETTLEMENT** deserves a closer look.

By David Port



Why should seniors consider life settlement as a way to generate liquidity? And from a strategic standpoint, how do advisors and agents stand to benefit from exploring the life insurance secondary market with their clients? We brought together a panel of life settlement experts in New York City to answer those very questions. Their insightful and revealing discussion is captured in the article that follows.

THE LIFE SETTLEMENT DISCUSSION PANEL



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Chief Executive Officer
Institutional Life Services



WM. SCOTT PAGE
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Life Settlement Policy
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BEST PRACTICES FOR ADVISORS ARE ABOUT LEAVING NO STONE UNTURNED TO PROTECT YOUR CLIENTS' BEST INTERESTS.

But as diligent as you are, there's one stone you may have left unturned, or you haven't looked under in a while: the secondary market for life insurance, and more specifically, a life settlement.

Chances are you work with seniors who have immediate liquidity needs, and more who own underperforming or outdated life insurance policies, or policies they no longer need or can no longer afford because of changing circumstances. For them, life settlement might be the wisest use of a valuable but often overlooked asset, and from a financial standpoint, a more sensible alternative to surrendering the policy or letting it lapse.

For its ability to quickly and efficiently convert an asset—a life insurance contract—into readily available funds, the life settlement process, whereby a person's life insurance policy is sold to a licensed life settlement provider, is a viable, well-regulated and increasingly popular option for advisors and their senior clients.

On liquidity potential alone, life settlement holds a decisive advantage. A London Business School study from June 2013 concludes that the life settlement option can be "greatly beneficial for policy owners wanting to sell their policies." The study of more than 9,000 life settlement transactions between 2001 and 2011 found that policy owners received in excess of 400 percent more than they otherwise would have received via cash surrender.

"For seniors, a life settlement, when qualified, is far better than lapsing or surrendering a policy in almost every case," observes Robert Stark, president of Melville Capital, a life settlement advisor and broker in Long Island, N.Y. "It's a solution like any other exit strategy to an investment, which is how policy owners need to view a life settlement."

It's also a vastly underutilized solution. An estimated 20 percent of life insurance policyholders over the age of 65 hold policies whose economic value far exceeds their cash surrender value. Yet according to recent findings, 40% of seniors who own life insurance have either let their policy lapse or surrendered it. How much better off would that 40% be had they and their advisor investigated the life settlement option?

"One of the things about life settlements," says Nate Evans, president and CEO of Maple Life Financial Group, a life settlement provider in Bethesda, Md., "is that they create options for seniors where there haven't been options before."

The emergence and maturation of a secondary market for life insurance allows advisors and their clients to unlock the fair market value of a life insurance policy. "The life insurance policy is personal property to put to work, just like stocks, bonds, real estate, or a pension plan," explains Darwin Bayston, president of the

Life Insurance Settlement Association. “Treat a life insurance policy like you would any other asset, reallocating it based on need, circumstances and value.”

From the advisor and client perspective, the life settlement transaction itself has become more straightforward and consumer-friendly, to the point where it is “the most transparent and accountable insurance or financial service transaction in the United States today,” posits Michael Freedman, senior vice president for regulatory affairs at Coventry First, a life settlement provider in Fort Washington, Pa.

The life settlement transaction involves licensed providers and brokers, forms that have been approved by insurance regulators, several sets of consumer disclosures, privacy protections and numerous procedural measures that ensure consumers are making the most informed choice possible.

“The life settlement market has matured by leaps and bounds in the last 10 years,” echoes Paul Siegert, chairman and president of GWG Holdings, a provider based in Minneapolis. “It’s now a place where an advisor and a person with a life insurance policy can enter the marketplace and quickly feel comfortable with the process and the parties involved.”

A MARKET MATURES

It wasn’t always that way. Only slowly has the secondary market for life insurance gained acceptance in financial and insurance circles. Now, however, after a slow-down following the 2008 economic crisis, activity in the life settlement marketplace appears to be accelerating, with new investment capital the catalyst. It’s flowing into the market from a growing range of institutional investors, according to industry observers.

“The type of capital flowing into the market has changed for the better. We’re seeing pension funds, insurance and reinsurance companies getting in,” says Evans. “I think that’s a positive from the consumer perspective. Life settlement is becoming a more mainstream option.”

The face value (or total death benefit) of policies changing hands via life settlement stood at about \$500 million in 2000 and, after peaking around 2007 with over \$5 billion in insurance benefits purchased, the market stood at \$2.12 billion in 2012, according to industry estimates.

“There’s a much greater opportunity to sell a life insurance policy today in the secondary market than there was even two years ago,” observes Rob Haynie, managing director of Life Insurance Settlements Inc., a broker based in Ft. Lauderdale, Fla. “Transactions are occurring today that wouldn’t have occurred at any other time in our industry.”

The influx of new capital in the life settlement market means a better chance of finding a buyer for policies with smaller net insurance benefit amounts, along with a better chance of receiving multiple bids to drive up the value of a policy.



Life settlement is a way to build stronger relationships with clients by periodically analyzing the value of their life insurance and whether something should be done to maximize that value for the client.

~Alex Shapses, Institutional Life Services



CASE STUDY

Generate Monthly Income

FEMALE, age 81

\$1.4 million UL policy
(cash surrender value = \$46,000)

- Husband passed away
- Children grown and successful
- Feels policy is excessive
- Wants monthly income stream

Solution: Life settlement

- Settlement amount of \$327,000
- Proceeds invested into immediate annuity
- Received \$281,000 over surrender

*Courtesy of Melville Capital, www.melvillecapital.com
These examples are for illustration purposes only.
Actual results will vary.*



CASE STUDY

Strengthen Insurance Portfolio

MALE, age 77 & FEMALE, age 76

\$5 million survivorship UL

- Policy underperforming
- Updated planning, only need \$2 million
- \$285,000 cash surrender value
- If 1035, projected premiums = \$84,000/year

Solution: Life settlement

- Net offer = \$700,000
- Use as lump sum dump, new policy
- Projected annual premiums = \$53,000
- \$31,000/year savings

*Courtesy of Melville Capital, www.melvillecapital.com
These examples are for illustration purposes only.
Actual results will vary.*



CASE STUDY

Convertible Term Policy

MALE, age 65

\$3.5 million UL policy converted from term (cash surrender value = \$0)

- Life expectancies of 210 & 146 months
- No need for the coverage, so converting not an option
- Policy was going to lapse

Solution: Life Settlement

- Settlement amount of \$173,530
- Alternative Option was \$0
- Agent received FULL target premium for conversion compensation

*Courtesy of Welcome Funds Inc., www.welcomefunds.com
The examples are for illustration purposes only.
Actual results will vary.*

CASE STUDY

Non-Convertible Term Policy

MALE, age 61

\$250,000 term policy (ART)

- Multiple Myeloma patient
- Loss of income due to inability to work; did not qualify for accelerated death benefit rider

Solution: Life Settlement

- Settlement amount of \$100,000
- Alternative Option was \$0

*Courtesy of Welcome Funds Inc., www.welcomefunds.com
The examples are for illustration purposes only.
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For example, Coventry First purchased smaller-sized policies in 2012 (an average insurance benefit of \$659,000 in 2012) relative to 2011 (an average of \$3.79 million), according to *The Deal*.

“Not only are there more buyers today, there are more buyers willing to look at different size policies, and at policies with longer life expectancies,” says Cynthia Poveda, chief operating officer for Life Equity, a provider in Hudson, Ohio. “This is good for seniors, and for our market.”

The influx of capital from historically stable entities such as insurance companies, private equity firms, investment banks, family offices, endowments and pension funds has been an important stabilizing force in the life settlement market. So, too, has the maturation of life settlement brokers—the entities that work with advisors and life agents and their clients to find buyers for their policies. The recent recession thinned the broker ranks significantly, leaving sound, stable and proven companies. Again, that bodes well for seniors and advisors in their quest to get fair market value for a life insurance policy, whether it’s a whole life, universal life, variable universal life, survivorship or term policy.

The life settlement transaction is the most transparent and accountable insurance or financial service transaction in the United States today.

~Michael Freedman, Coventry First

THE REGULATORY LANDSCAPE

The high level of transparency and accountability with a life settlement transaction clearly equates to a high level of consumer satisfaction.

Indeed, the volume of consumer complaints related to life settlement is exceedingly low relative to other financial and insurance products. Only a handful—four—life settlement-related consumer complaints have been reported to state insurance regulators nationally over the past four years, and none in the past two years, according to data from the National Association of Insurance Commissioners. By comparison, state insurance regulators logged more than 11,000 consumer complaints about delays in insurance claims handling in 2012, while at the federal level, FINRA, the agency that oversees regulation of U.S. securities firms, last year fielded close to 2,800 investor complaints.

The transparency and accountability that characterize a life settlement transaction



are due largely to an increasingly coherent, easy-to-navigate and consumer-centric regulatory framework. State insurance regulators provide the foundation of that framework. Forty-two of 50 states now have policies in place specifically to oversee participants in the life settlement market, representing about 90% of the U.S. population. Several of the remaining eight states, Freedman notes, are currently developing legislation.

Not only do state insurance agencies in most states license and oversee life settlement brokers and providers, he points out, they also enforce policies designed to provide transparency during the various stages of a life settlement transaction, so that the consumer and the advisor are informed about life settlement broker commissions, the existence of offers and counteroffers on a specific policy, as well as the risks and tax consequences attendant to those transactions. The rules in most states also provide consumers with privacy protection around their medical and financial information.

Regulatory and professional training programs are affording advisors and agents broader access to life settlement as a tool for helping their clients. First there's the matter of licensing. "It is the law of the land, in all but a few states, that all life agents are deemed qualified to be life settlement brokers," Freedman notes. In addition, adds Bayston, certified financial planners and certified public accountants now can earn continuing education credits for life settlement courses.

The multiple layers of regulation and training help ensure that "consumers are going to be afforded the strongest level of consumer protection throughout the transaction," says Freedman.

As solid as regulatory oversight of the life settlement is today, additional measures are being taken to make the process even more transparent and seamless for consumers and their advisors. One is an initiative designed to raise awareness of the life settlement option among consumers. A model disclosure law recently adopted by the National Conference of Insurance Legislators (NCOIL) requires insurers to notify insureds whose policy is about to lapse or be surrendered that life settlement is also an option. A handful of states (Kentucky, Maine, New Hampshire, Oregon, Washington and Wisconsin) have adopted laws based on the model, and others are poised to follow suit.

Also in the pipeline, according to Freedman, are important new federal tax provisions designed to "give clarity to both seller and their advisors for how to calculate taxes from the sale of a life insurance policy." These long-discussed provisions could become law in 2014, he says.



CASE STUDY

Seven-Year Old UL Policy

FEMALE, age 77

\$1,000,000 UL

- Premium = \$39,000 annually
- Standard preferred health, 16-yr. LE
- No longer had a need for coverage; surrender forms already ordered by trustee when agent called family

Solution: Life settlement

- Settlement amount of \$60,000
- Cash surrender value was \$17,950

Courtesy of Welcome Funds Inc., www.welcomefunds.com

The examples are for illustration purposes only. Actual results will vary.



CASE STUDY

Fulfill Philanthropic Desires

MALE, age 76

\$2 million UL policy

(cost basis = \$300,000; cash surrender value = \$39,000)

- No longer needs policy
- Desires to be more supportive of charity
- Could donate to charity for deduction of cash surrender value and make premiums each year as additional contribution to receive deductions

Solution: Life settlement

- Set up charitable remainder trust (CRT)
- Obtain appraisal of policy in the secondary market = \$540,000
- Donate policy to CRT and settle policy
- Get tax deduction based on the \$540,000
- Receive annual income stream from proceeds

Courtesy of Melville Capital, www.melvillecapital.com

These examples are for illustration purposes only. Actual results will vary.



PUTTING AN ASSET TO WORK

Life settlements aren't for everyone. But they are a viable option for a people in a broad range of situations, among them:

- **a person or trust whose life insurance policy is underperforming for the cost.**
- **a person who no longer wants to pay (or can no longer afford to pay) life insurance premiums.**
- **a person who owns a life insurance policy and, due to a change in their health, has a pressing short-term need for funds to cover the cost of long term care, healthcare, etc.**
- **a person who no longer needs a life policy because their circumstances and/or priorities have changed.**
- **a person who wants to maximize the financial value of a life insurance policy today.**
- **a trust that needs to adjust its life insurance holdings based on changes to federal estate tax thresholds.**
- **a person who wants to address the financial risk associated with long term care, using a vehicle other than traditional long term care insurance.**
- **a business owner who no longer needs a life insurance policy that was originally purchased to underpin a buy-sell or key-person agreement.**

In a 2013 analysis of 100 life insurance policy owners who sold their policies to Coventry First in the past year, 77% indicated they primarily used the proceeds to pay for immediate medical or healthcare needs, long term care services or to increase retirement income. Another 14% reported they used the proceeds to fund a new life insurance policy or to retain a portion of their existing policy without the requirement to pay ongoing premiums.

“What’s underlying many of these transactions,” observes Poveda, “is not just the changing needs of the client, but a change of thinking at the advisor level, where the advisor takes a holistic view and realizes there is something more they can do to get additional value out of a client’s financial assets.”

Life settlements are an indispensable tool for advisors and agents in the context of holistic financial planning, says Marshall Abbott, president and CEO of Institutional Life Services, a provider based in New York City. “The better you understand your assets and your resources, the more effectively and intelligently you can manage them.”

The life insurance secondary market gives agents and advisors another all-important edge: versatility. “It transforms that life insurance policy into another asset that can be repurposed for its highest and best use,” says Jon Sabes, CEO of GWG Holdings in Minneapolis.

For advisors and agents, the challenge lies in navigating the secondary marketplace to deliver to the client as much value as possible from a life insurance policy. That’s where support from a life settlement broker can prove invaluable, especially for advisors who aren’t particularly well-versed in what can be a nuanced life settlement process. Not only will a broker consult with the advisor and client to evaluate the suitability and feasibility of life settlement, they also will take the policy to market for a fair market valuation, obtain competitive bids, and connect the seller with a buyer.

Essentially, it’s the broker’s job to guide the advisor and client through the entire process, making it as understandable, quick and transparent as possible. “Advisors can rely on the broker to explain the process and the requirements to the client, so that it comes through clearly,” explains Stark. “It’s difficult, and probably not advisable, for advisors to wade into that marketplace and try to sell a policy without a broker.”



OPPORTUNITIES AROUND FOR ADVISORS

A life settlement is the type of tool that, when brought to bear in the right situations, can help clients achieve their goals while helping advisors achieve their own business goals, too.

When a client uses proceeds from a life settlement transaction to purchase a new life insurance product, or an annuity, for example, his or her advisor or agent stands to reap a financial benefit. What's more, the advisor or agent stands to earn a commission on the life settlement. Then there are the intangible benefits that often translate into tangible benefits later: the trust and good will (and perhaps, referrals) that the advisor/agent stands to earn from clients whom they have helped with a successful life settlement transaction.

A life settlement isn't just another financial product to offer to seniors. It's a creative solution that gives advisors and agents a new channel for contact with seniors. "It's a very good opportunity for advisors to initiate, develop and maintain client relationships," says John Welcom, CEO of Welcome Funds, a broker based in Boca Raton, Fla.

"It's a way to build stronger relationships with clients," adds Alex Shapses of Institutional Life Services, "by periodically analyzing the value of their life insurance and whether something should be done to maximize that value for the client."

Presented proactively and tactfully, the life settlement option can even become a valuable prospecting and closing tool. "It makes sense for advisors to discuss the life settlement option *before* the sale of the original life insurance policy," asserts Wm. Scott Page, president and CEO of the Lifeline Program, an Atlanta-based provider. "It's a wonderful sales tool because knowing that a life settlement could be an option later gives consumers another reason to purchase life insurance."

Sabes concurs. "A person should know they have the right to sell their life insurance policy in order to maximize the value of their investments."

The life settlement option also gives advisors and agents a new strategy for prospecting and generating new business

from their existing client base. By working with a life settlement broker, an advisor or agent has the ability to obtain what amounts to a free valuation of what a life insurance would bring from the secondary market. Why not tout the ability to provide a fair-market life insurance valuation to prospects and clients? "Obtaining a free valuation of a client's policy as a prospecting tool is a huge opportunity for advisors," says Joseph Ruggiero, also of Institutional Life Services. "It adds another dimension to the advisor's management of the client's overall assets."

Ultimately, whether in prospecting for new clients or working with existing ones, says Page, "it's smart for advisors to have life settlement in the bag of services they bring to the table with their clients."



CASE STUDY

Business Buy-Sell Agreement

MALE, age 79

\$1.4 million policy
(\$104,000 cash surrender value)

- Buy/sell agreement
- Insured senior partner of large medical practice
- Aggressive office/equipment expansion over levered business loan defaults

Solution: Life settlement

- Settlement amount of \$545,000 vs. \$104,000 cash surrender value
- Proceeds used to reduce leverage
- Received \$441,000 over surrender

Courtesy of Melville Capital, www.melvillecapital.com

These examples are for illustration purposes only. Actual results will vary.

AN EYE TO THE FUTURE

Versatile tool that it is for generating liquidity by unlocking the fair-market value of a life insurance policy, the life settlement process, like other financial and insurance strategies, continues to develop in new directions that promise to make it an even more powerful resource for seniors.

One area to watch is what are being commonly referred to as “Medicaid life settlements,” whereby a senior sells a life insurance policy through a life settlement to directly fund long term care services while still preserving their Medicaid eligibility. A groundbreaking new law adopted in Texas is designed to increase the public’s awareness of, and access to, such a maneuver. At least 10 other states are actively considering similar legislation. “Middle-income seniors who are not wealthy enough to pay for their own healthcare but can’t qualify for Medicaid will be the biggest beneficiaries of laws like these,” says Coventry’s Freedman. “Seniors who can sell their policies and pay for their own long-term care services will not have to divest themselves of other assets just to qualify for Medicaid.”

Also worth watching at both the state and federal level is the implementation of new disclosure laws requiring insurers to inform insureds whose policy is about to lapse or be surrendered of the life settlement option. If implemented as expected, these laws are bound to generate life settlement inquiries from consumers. Advisors and agents must be prepared to respond.

New laws adopted at the federal level also promise to create life settlement opportunities for advisors and agents in an estate planning context. The American Taxpayer Relief Act of 2012, and specifically a provision that increased the estate tax exclusion to \$5.25 million for individuals and \$10.5 million for married couples, opens the door for individuals and trusts to use life settlement to shed policies that the new law has rendered excessive or unnecessary.

Outside the regulatory realm, free market forces also point to a positive future for life settlement. On the buy side, the influx of investment capital into the marketplace is expected to continue as more institutional investors discover the appeal of a vehicle that offers long-term investment horizons and non-correlation to the stock and bond markets. For policy owners—your clients—more capital means more competition for a broader range of life insurance policies, along with life settlement transactions configured with more flexibility, so policy owners can actually retain a share in the benefits of their policies, along with the liquidity generated by the transaction.

The relationship and the trust that advisors and agents hold with their clients make them a vital link in the life settlement chain, and put them in a solid position to add life settlement to their arsenal as an indispensable insurance and financial planning mechanism.

“Exploring life settlements on behalf of your clients can be a good thing, whether or not it results in an actual transaction,” says Haynie. “Knowing the true value of a policy not only provides peace of mind, other needs often are uncovered during a life settlement discussion, leading to the purchase of other products. It literally is a win-win.”

In the end, says Siegert of GWG Holdings, “life settlements are about maximizing assets and getting money to seniors so that they can enjoy their lives, so that they can extend their lives as best they can and live life to the fullest.” **END**

What’s underlying many of these transactions is not just the changing needs of the client, but a change of thinking at the advisor level, where the advisor takes a holistic view and realizes there is something more they can do to get additional value out of a client’s financial assets.

~Cynthia Poveda, *Life Equity*

RESOURCES

Intrigued about life settlement and what it can do for your clients and your business? Have questions about the process? Any of the organizations below can provide guidance and information.

Coventry First

Provider, Fort Washington, Pa.
www.coventry.com; 877.836.8300

GWG Holdings

GWG Life Settlements
Provider, Minneapolis, Minn.
www.gwglife.com; 877.494.2388

Institutional Life Services

Provider, New York, N.Y.
www.ilcompanies.com; 212.301.4000

Life Equity

Provider/servicer, Hudson, Ohio
www.lifeequity.net; 330.342.7772

Life Insurance Settlement Association (LISA)

Trade organization, Orlando, Fla.
www.lisa.org; 407.894.3797

Life Insurance Settlements Inc.

Broker, Ft. Lauderdale, Fla.
www.lisettlements.com; 866.326.5433

The Lifeline Program

Provider, Atlanta, GA
www.thelifeline.com; 800.252.5282

Maple Life Financial Group

Provider/servicer, Bethesda, Md.
www.maplelifefinancial.com;
877.777.0635

Melville Capital

Broker, Huntington, N.Y.
www.melvillecapital.com;
866.511.5990

Welcome Funds Inc.

Broker, Boca Raton, Fla.
www.welcomefunds.com; 877.227.4484

