



## LIFE SETTLEMENTS OFFER A SOLUTION

### WHEN NEEDS CHANGE FOR CORPORATE OWNED LIFE INSURANCE

#### THE SITUATION

Larry West,<sup>1</sup> a 60-year-old physician, had a \$1.5 million term policy on his life that was owned by the medical group where Larry was one of two corporate officers. Their practice had overcommitted funds to purchase expensive medical equipment. As a result, Larry and his business partner lacked the funds to maintain the policy as well as cover the day-to-day operations of the corporation. Larry was also suffering from cancer that shortened his life expectancy considerably to 82 – 84 months.

Instead of allowing the entire policy to lapse, the partners consulted their ValMark Advisor and decided to retain \$750,000 of the coverage and sell \$750,000 on the secondary market.<sup>2</sup> This would provide immediate working capital for the practice, while still maintaining some insurance coverage on a key executive.

#### THE OUTCOME

ValMark's life settlement team worked with multiple providers through a bidding process to negotiate an optimum life settlement offer. Larry's life expectancy and the policy dynamics made this situation attractive to our providers resulting in a total gross offer of **\$202,500**<sup>3</sup> (before commissions and expenses).

#### SUMMARY

POLICY TYPE	Term
DEATH BENEFIT	\$750,000
CASH SURRENDER VALUE	\$0
ANNUAL PREMIUMS	\$27,658 to Age 100
<b>LIFE SETTLEMENT OFFER</b>	<b>\$202,500 Gross<sup>3</sup></b>

#### THE TAKEAWAY

Two of the most common reasons for policyholders to pursue a life settlement are *unaffordable premiums and the need for liquidity*<sup>4</sup>. Corporate-owned policies can be sold to create liquidity for the company when needed. Consider a life settlement as an alternative to lapsing or surrendering the policy.

<sup>1</sup> Client name has been changed to protect confidentiality. | <sup>2</sup> A Policy Appraisal Report will generate estimated values for the policy based on certain life expectancies. | <sup>3</sup> The gross offer will be reduced by commissions and expenses related to the sale. | <sup>4</sup> Kitces, Life Settlements – Selling A Life Insurance Policy That's No Longer Wanted For More Than Its Cash Value – 2016. | Each client's experience varies, and there is no guarantee that a life settlement will generate an offer greater than the current cash surrender value. In such cases, the client can always surrender their policy to the carrier if the coverage is no longer needed. This material is intended for informational purposes only and should not be construed as legal or tax advice or investment recommendations. Consult a qualified attorney, tax advisor, investment professional or insurance agent about the issues discussed herein. Securities offered through ValMark Securities, Inc. Member FINRA/SIPC.



## LIFE SETTLEMENT DISCLOSURE

- In a life settlement agreement, the current life insurance policy owner transfers the ownership and beneficiary designations to a third party, who receives the death proceeds at the passing of the insured. As a result, this buyer has a financial interest in the seller's death.
- A policy owner should consider the continued need for coverage, and, if the policy owner plans to replace the existing policy with another policy, the policy owner should consider the availability, adequacy and cost of comparable coverage.
- Policy owners considering the need for cash should consider other less costly alternatives.
- When an individual decides to sell their policy, he or she must provide complete access to his or her medical history, and other personal information, that may affect his or her life expectancy. This information is requested during the initial application for a life settlement.
- After the completion of the sale, there may be an ongoing obligation to disclose similar and additional information at a later date.
- Individuals should discuss the taxation of the proceeds received with their tax advisor.
- ValMark Securities supervises all life settlements like a security transaction.
- A life settlement may affect the insured's ability to obtain insurance in the future and the seller's eligibility for certain public assistance programs, such as Medicaid, and there may be tax consequences.
- ValMark and its registered representatives act as brokers on the transaction and may receive a fee from the purchaser.
- A life settlement transaction may require an extended period of time to complete. Due to complexity of the transaction, fees and costs incurred with the life settlement transaction may be substantially higher than other securities.
- Once the policy is transferred, the policy owner has no control over subsequent transfers.
- If you are an investor or a buyer of a life insurance policy then you should be aware that:
  - Investment in a life settlement is highly speculative.
  - Although a substantial profit may be realized, a substantial loss is also possible.
  - The death benefit may never be paid.
  - Additional funds may need to be invested to pay premiums if the insured lives substantially longer than expected.
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