WHITE PAPER

LIFE INSURANCE SETTLEMENT ASSOCIATION

Cashing in on Unneeded Life Insurance Policies

How Seniors Are Benefiting From Life Settlements

Produced by the LISA Marketing Committee - www.lisassociation.org -

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How Seniors Are Benefiting From Life Settlements

Many American seniors—typically those 70 years of age or older—are discovering that life insurance policies that once seemed appropriate no longer meet their needs. Unfortunately, the life insurance companies that sold them the policies in question may not offer real advice or solutions.

The insurance companies do allow their customers to "surrender" their policies, which means the policyholder will be offered a mere fraction (typically 3-5%) of the policy's face value. However, they often discourage their personnel from telling customers that they can realize far better cash outcomes thus obtaining far greater payoffs on their existing policies – through *life settlements*.

Life settlements, which are usually undertaken for the purposes of estate or financial planning, put choice in the hands of American consumers

A life settlement is the sale of an existing life insurance policy for more than its cash surrender value but less than its net death benefit. Such transactions, usually undertaken for the purposes of estate or financial planning, put choice in the hands of American consumers.

As this paper will show, life settlements represent an important option for a growing number of people who thought they had no options. Rather than continuing to pay premiums on a policy that no longer serves its original purpose, life settlements offer payoffs that can be significantly greater than surrendering a policy. Life settlements offer a reasonable and profitable exit strategy that addresses the financial objectives of policyholders.

In Search of Options and Opportunities

Americans have an extraordinary amount of choice in most products and services, and have come to expect the same freedoms to maximize value in the realm of life insurance

Changing priorities or dissatisfaction with life insurance policies have driven many policyholders to discontinue their existing life insurance policies. While policy owners have had a legally protected right to sell (or "assign") a life insurance policy for almost a century, very few have taken advantage of this opportunity until recently.

Here are some of the factors encouraging insured individuals to reconsider the value and necessity of their current policies:

- **Paradigm shift in consumer thinking.** Americans have an extraordinary amount of choice in most products and services.

Similarly, they have come to expect the same amount of freedom to maximize value in the realm of life insurance. They are recognizing that life insurance is merely one asset within an estate or financial portfolio that should be managed for optimum outcomes. They are no longer willing to treat life insurance as an “untouchable” product that must always be held until death.

- **Guidance from their financial advisors.** As the poor performance or under-performance of certain life insurance (particularly universal life) policies becomes increasingly clear over time, financial advisors – and even independent agents who originally sold the policies – are exploring options with their clients. Financial advisors, who are increasingly attuned to the changing needs and priorities of their customers over time, may suggest alternatives. Many independent insurance agents, who have an inside perspective on how individual policies have performed, also are beginning to discuss options with clients. Most insurance companies, in contrast, do not fully advise their clients about their choices.

- **Feathering the empty nest.** As Americans enter their senior years, they often experience unexpected changes that alter their priorities. Policies that once made sense no longer do under new circumstances. For instance, decisions that seemed appropriate when policyholders had children in the house may no longer seem appropriate. These life changes may drive some seniors to decide that a given life insurance policy is no longer relevant and that other steps should be taken to achieve full financial empowerment.

- **Dissatisfaction with existing policies.** Whether the motivation is changing circumstances, better financial options or the availability of superior policies that render old ones obsolete, many seniors may find themselves dissatisfied with existing policies. Indeed, quality improvements in insurance policies over the years are driving individuals to abandon policies they consider to be outdated.

- **Escalating policy premiums.** Many people are not prepared for the steep escalation in premiums that accompanies ownership of many policies. Moreover, they may be hit with these policy increases right at the time when they are experiencing mounting health care costs and other financial concerns. Under such circumstances, a policy may seem to be a lower priority than it might have been in the past.

These factors have created demand for alternatives among many who now hold life insurance policies. Such alternatives are now becoming visible to consumers.

Policyholders Have Unanswered Questions

Is it possible to recover money necessary to make new investments and more effectively manage the financial estate?

Increasingly, policyholders have questions for their life insurance companies: Are there more attractive alternatives than to surrender a policy? Is it possible to recover money necessary to make new investments and more effectively manage the financial estate? If new policies that offer lower premiums and better guarantees are now available, is there a way to transition to a new policy without incurring financial punishment? If life circumstances change, is there a way to sell the policy and still realize a fair settlement? What are the available options?

Unfortunately, the life insurance companies offer no real answers to these questions. Customers do have the option to "surrender" their policies, which means the policyholder will be offered a mere fraction of the policy's face value. Insurance companies are requiring life settlement companies to inform seniors about the accelerated death benefit option. However, they are not informing seniors of the option for a life settlement.

Often, policyholders let policies lapse, in which case they receive nothing – not even a minor surrender payment – for their years of premium payments. Their contracts are simply null and void.

There are even cases where a spouse, who previously was responsible for the bills, has died and the life insurance policy goes unrecognized. There are others where family members take responsibility for an individual who suffers from Alzheimer's or some other serious debilitation late in life, but are unaware of – and, thus, neglect to pay – a life insurance bill. Such cases are simply and coldly classified as "lapsed policies," but there's obviously a severe cost to consumers.

Reasons for Abandoning a Life Insurance Policy

Policyholders may determine that they can obtain better, more expansive coverage with lower premium payments in the current market

There are many reasons that life insurance policyholders might begin to question whether it is prudent to continue to hold and pay premiums on existing policies. Among them:

- **The policy is no longer needed or wanted**. As the circumstances of life change over time, so do insurance needs. Policies that may have made sense at one point may no longer serve a useful purpose at a later date. Perhaps a spouse or another beneficiary for whom the policy was purchased is now deceased. Maybe other policies prove adequate to cover the original goals and provide necessary protection.

- **Opportunities to obtain a superior insurance policy**. There have been dramatic changes in the insurance market in recent years. As a result, policyholders may determine that they can obtain better, more expansive coverage with lower premium payments in the current market.

- **Premium payments have become unaffordable**. In many cases, large or escalating premium payments can prove to be a tremendous financial burden for policyholders, particularly in their elder years. They may need to get out from under the burden of making these payments in order to sustain a good quality of life.

- **Changes in estate planning needs**. The financial markets have created powerful new opportunities for smart investors in recent years. As financially adept consumers seek to maximize the value of their assets and estates, they may find investment vehicles that offer a superior return to existing life insurance policies.
- **Rising healthcare costs or mounting financial concerns**. Health problems and other unforeseen difficulties can create circumstances that increase financial burdens and needs. Under such circumstances, existing life insurance policies may not be considered as relevant as more immediate concerns.

Whether policyholders possess term policies, universal life policies or whole life policies, they can easily find themselves in circumstances where their existing policies no longer make sense. Indeed, a growing number of individuals have come to that conclusion. Unfortunately, their insurance companies tend to be less than helpful at that point.

Life Insurance Companies Offer No Viable Exit Strategy

Insurance companies have built their businesses with an anticipation of high lapse and surrender rates

There are countless scenarios that might encourage a policyholder to seek alternatives to existing life insurance arrangements. The problem is that insurance companies merely offer their customers two choices: lapse or surrender. If the policy lapses, then the contract becomes null and void and the customer loses all of their investment. If the customer chooses to surrender the policy, then the payout is typically only 3-5% of the policy's face value.

Considering the high and often escalating premiums that policyholders often pay over time to keep their policies in force, it's an unfair and unacceptable outcome. In trying to abandon their policies, consumers lose the cash value buildup in them – the element that makes them an asset.

There is absolutely no reason to hold onto an unattractive policy when higher guarantees and higher coverage at lower premiums are a market option. Why accept highly invasive surgery – and months of rehabilitation – when you can have a high-tech, minimally invasive procedure performed instead? Why rent an old phone from Ma Bell – and pay $3 a minute to call your grandchildren – when you can own a wireless phone and pay 10 cents a minute?

Obviously, markets drive innovation, change and quality improvements. They offer us all an endless parade of choice.

Historical Overview: The Evolution of a Secondary Market

In a 1911 case, the U.S. Supreme Court found that a life insurance policy is a form of property and that policy owners are free to sell and transfer ownership to other parties

In 1911, the U.S. Supreme Court decided that life insurance policies are freely assignable for value. The court found that a life insurance policy is a form of property and that policy owners are free to sell and transfer ownership to other parties.

After World War II, the American economy and the insurance industry boomed. New forms of policies, such as universal life, became popular. Life insurance policies became a familiar consumer product – often purchased outright or incorporated into a corporate benefits package.

It wasn't until the 1990s that a market for *viatical settlements* arose. Such settlements became a popular option for terminally or chronically ill policy owners who wanted to sell their policies to third-party investors. These policy owners often had HIV and needed the money for costly medication and treatment. However, numerous cases of fraud and abuse were uncovered during the period – leading to calls for greater state regulation.

In the late 1990s, life settlements emerged from the viatical industry. Since then, the value and the volume of the life settlement industry have increased dramatically. A secondary market for life insurance has provided consumers with financial empowerment to manage their life insurance assets more effectively, providing an alternative to lapse or surrender. Policy owners receive, on average, three times the cash surrender value for the sale of their policy. In 2004 alone, life settlements provided seniors with $1 billion in purchasing power – $660 million in excess of cash surrender value, according to the Life Insurance Settlement Association (LISA).

In recent years, the secondary market has continued to grow. Recognized financial leaders have provided capital funding and the number of experienced brokers and service providers has grown.

Over the past decade, regulatory and legal statutes have afforded consumers new protections in most states – though not all. Some states have enacted statutes addressing the sale of life insurance policies for all policyholders and some have only enacted laws that regulate the sale of life insurance policies for terminally ill individuals. Still other states do not regulate the transaction at all. Of those states that regulate the transaction, most require that both the settlement broker (representing the seller) and settlement provider (purchaser of the policy) be licensed.

The Life Settlement Solution

Life settlements are a relatively new product that provides an exit strategy for individuals holding expensive or under-performing life insurance policies

Consumers have an alternative to lapsed or surrendered policies. Policyholders have a choice available to them that will help them realize the full market value of their existing policies, should they decide to abandon them. When concerns about the value or relevance of an existing life insurance policy arise, it may be time to explore *life settlements* – an option and an opportunity enabling a policyholder to receive a fair and reasonable settlement when selling a life insurance asset.

Significantly Higher Value

What makes life settlements so attractive to the policy seller – the consumer – is that the proceeds from the policy sale are always greater than the cash surrender value that would otherwise be offered by the insurance company. In fact, they can produce returns that are three to four times an insurance carrier's cash surrender value.

When to Sell?

When should one consider engaging in a life settlement? While there are many situations in which a life settlement might prove a sensible option, it is most useful in situations where an individual is thinking of letting a policy lapse or surrendering the policy back to the original insurance company.

Changing circumstances – such as the retirement of someone who held a "key-man" policy or shifting financial portfolio – can lead a policyholder to seek a life settlement. The death of a beneficiary, which takes away a policy's initial purpose, might be another reason. Sometimes, the key reason for abandoning a policy and seeking a life settlement is the escalation of policy premiums, which might diminish the policyholder's quality of life. However, the single most common reason for seeking a life settlement – representing 40% of all such transactions – is tied to the desire to obtain a different policy on more attractive terms.

The Secondary Market

Life settlement providers competitively bid on the purchase of an existing policy, taking into account the insured's current age, state of health, and the overall economic environment. In other words, if they qualify, those wishing to cash in their policies can now get a competitive market quote based on several bids – creating superior outcomes for the policy seller.

Considering that there is more capital committed to life settlements than policies to sell, sellers are in a very strong position

Life settlements are typically supported by solid and recognized institutional funding sources. Financial capital presently is supercharging the development of the life settlement industry. Brokers, who represent the policy sellers, solicit multiple bids from life settlement providers, who derive their financial backing from institutional funders such as prominent investment banks and hedge funds.

Such players make up what is known as the "secondary market." Most substantial consumer products actually lend themselves to secondary markets. Houses, for instance, are purchased and resold on secondary markets. One other example is the secondary market for theater tickets. In the state of New York, ticket holders now can resell their tickets – though for less than the original sale price. This adds value to the original ticket because ticket holders are now able to recover some portion of their money should their plans change. In fact, a great deal of an insurance policy's initial value in a primary market rests on the knowledge that it can always be resold in a secondary market.

As a maturing industry, life insurance has opened the door to life settlements as a secondary market. Life insurance, after all, is recognized by law as an "assignable," or transferable, asset. Like other consumer products, it can be purchased, owned, and thus sold on the open market. As in other markets, a variety of companies – funders, providers and brokers – compete for the right to serve the customer and provide a valued service.

Market value – as opposed to the insurance company's valuation of a policy – is the ultimate determinant of how policyholders are compensated on the secondary market. Competition enables consumers to receive a fair and attractive settlement as more and more institutional investors are attracted to the strong returns that the life settlement market represents. Indeed, today's market could be considered a "seller's market," exceedingly favorable to policyholders. They can easily "shop" their policies for multiple, competing bids.

The existence of this increasingly competitive secondary market also enables the streamlined transfer of the product from seller to buyer. When the transaction is completed, policy ownership is transferred to the life settlement provider (typically a licensed entity) – who assumes premium payments. The policy seller receives a lump-sum cash payment within a matter of days and is free to begin taking the steps that encouraged the individual to engage in a life settlement in the first place.

The life settlement industry is a highly funded, highly capitalized industry with money from dozens of companies that represent the capital markets. The buyers aggressively compete to provide the policy seller with the best possible offer. And considering that there is more capital committed to life settlements than policies to sell, sellers are in a very strong position.

The Benefits of a Life Settlement

The reluctance of life insurance companies to change with their customers has created a vacuum in the marketplace that life settlements have emerged to fill

Life settlements provide a host of benefits to consumers. They also address the key challenges that now lead to dissatisfaction and disappointment among life insurance policyholders. Here are some of the key benefits to consider:

<u>Provides an Exit Strategy for Unwanted Policies</u>

Life settlements give policyholders an opportunity to generate returns that can be three to four times cash surrender value. The cash payments they receive enable them to abandon existing policies and make decisions that would otherwise not be open to them.

Imagine you were holding a 10-year, $1 million life insurance policy. You can now recapture some of the value you invested in the policy. You purchased it when you were 65 and now you are 75, but you have no interest in paying the rising premiums.
Now, you can sell the policy for $200,000 in the secondary market that would otherwise have yielded $50,000 in cash surrender from your life insurance carrier. It's clear that a life settlement generates a better cash outcome for you, the policyholder.

Addresses Life Changes

Lives, expectations, priorities, concerns and needs all tend to change over time. The National Association of Insurance Commissioners (NAIC) acknowledges this truth on its website when it encourages policyholders for home, auto and health to annually review their policies to ensure that their coverage matches their family and personal needs. Such life changes may also have implications for owners of life insurance products. Life settlements enable consumers to address the changes in their lives – moving monies from unwanted life insurance policies to more valued investments or activities.

Enables Individuals to Purchase Better Performing Policies

Life settlements enable policyholders to obtain the cash payments necessary to purchase replacement policies. In some cases, they may even be able to purchase policies with their life settlement payments that eliminate the necessity of making premium payments thereafter. Others choose to purchase replacement policies and "cash out" part of the value of their existing policies and use the money for other purposes.

Provides Freedom and Flexibility

Consumers now have the freedom and flexibility to take the proceeds from a life settlement and use them as they see most appropriate. They may want to give cash gifts to family members. They may want to use the money to engage in charitable giving. Some may even want to remove a policy from an estate due to a reduction in size of their assets.

More and more people are discovering that they do have choices in the realm of life insurance. By enabling policyholders to seek the highest bid available in the secondary market, life settlements typically yield three to four times the surrender value. As a result, policy owners are not tied to the decisions of the past. They have the freedom and the flexibility to go forward.

Life Settlement Scenarios

Having received a life settlement offer of $779,000, one 75-year-old woman used the proceeds to purchase a new policy with a $1,300,000 death benefit. As a result, this individual was able to completely eliminate annual premiums – saving $85,130 a year.

To gain a better understanding of the experiences that might encourage someone to abandon a life insurance policy and the benefits that one might derive from a life settlement, it's useful to consider some common scenarios. These examples demonstrate the changes and choices that people face when they engage in a life settlement, but also some of the opportunities they are able to seize. Here are some typical scenarios based on real-life cases and experiences:

Replacing Multiple Insurance Policies to Realize Big Savings. One 80-year-old retired business owner held multiple insurance policies with $5 million in death benefits. His annual premiums were $426,113. His objective was to obtain the same death benefit while reducing his substantial annual premiums. Through a life settlement, he sought the money to fund a single $5 million policy. Based on the highest offers available to him, he was able to obtain life settlement proceeds of $950,000. Those proceeds enabled him to fund a new policy with the same coverage; however, annual savings in premium payments will total $125,312.

Eliminating Premiums through a New Policy. A 75-year-old woman held a life policy for $2.5 million. However, her annual premiums of $85,130 were becoming far too costly. Moreover, one of the beneficiaries for which she had held the policy preceded her in death. Considering the changing circumstances in her life, she sought a different policy. Having received a life settlement offer of $779,000, she used the proceeds to purchase a new single premium policy with a $1,300,000 death benefit. As a result, this individual was able to completely eliminate annual premiums – saving $85,130 a year.

Enabling a Comfortable Retirement with $1.1 Million Settlement. One 73-year-old business owner wanted to sell his company, but was unable to solicit an offer that he considered sufficient for his retirement needs. Working with his financial advisor, he realized he could sell his business-owned policy on the secondary market. The term policy, which had a face amount of $5 million, had no cash value. The life settlement transaction, however, yielded him $1.1 million – enabling him to take the proceeds and fund a comfortable retirement.

One 78-year-old man was unable to keep up with his premiums for a $250,000 policy and was in danger of losing his home due to mounting bills and unpaid loans. His life settlement enabled him to pay off his bills and keep his home

Salvaging a Policy from Lapse to Protect a Home. One 78-year-old man was unable to keep up with his premiums for a $250,000 policy and was in danger of losing his home due to mounting bills and unpaid loans. He had experienced unexpected health problems that were not covered by Medicare. He had also provided money to a grandchild for college tuition. Now, he found himself in difficult financial straits. He was unable to pay his escalating life insurance premiums and was prepared to let the policy lapse. He was even facing foreclosure on his house. Then a friend told him about life settlements and he asked a financial advisor. As a result, the $70,000 payment he received within a week of seeking bids and a day of selling his policy has helped him pay off some troubling debts and keep his home.

Funding Replacement Coverage with Lower Premiums. This case involved an 83-year-old woman with a $1 million universal life policy with premium payments of $42,321. However, her insurance carrier offered a cash surrender value of only $46,567. She wanted to maintain her coverage, but needed to lower her monthly premiums to reduce expenses and maintain her quality of life. Through a life settlement she was able to obtain $310,000. The proceeds were then used to purchase a new $1 million policy with significantly lower premiums.

Creating Financial Security and Peace of Mind. One 76-year-old man developed financial problems after his wife passed away and realized he could no longer afford to pay the premiums for a $2.5 million survivorship universal life policy. He was prepared to cash it in for just $55,544 when his broker referred him to a specialist in life settlements. Having received $785,000 as a top bid, he was able to secure his future years and told his broker that this had changed his life.

As these scenarios suggest, there are far-reaching – even life-changing – benefits to be realized through life settlements. They represent smart money management in many cases – a financial tool to maximize the value of one's life insurance assets. In other cases, they represent a means of addressing mounting problems and gaining financial security. In every case, life settlements offer superior value to the individuals who choose to take advantage of them.

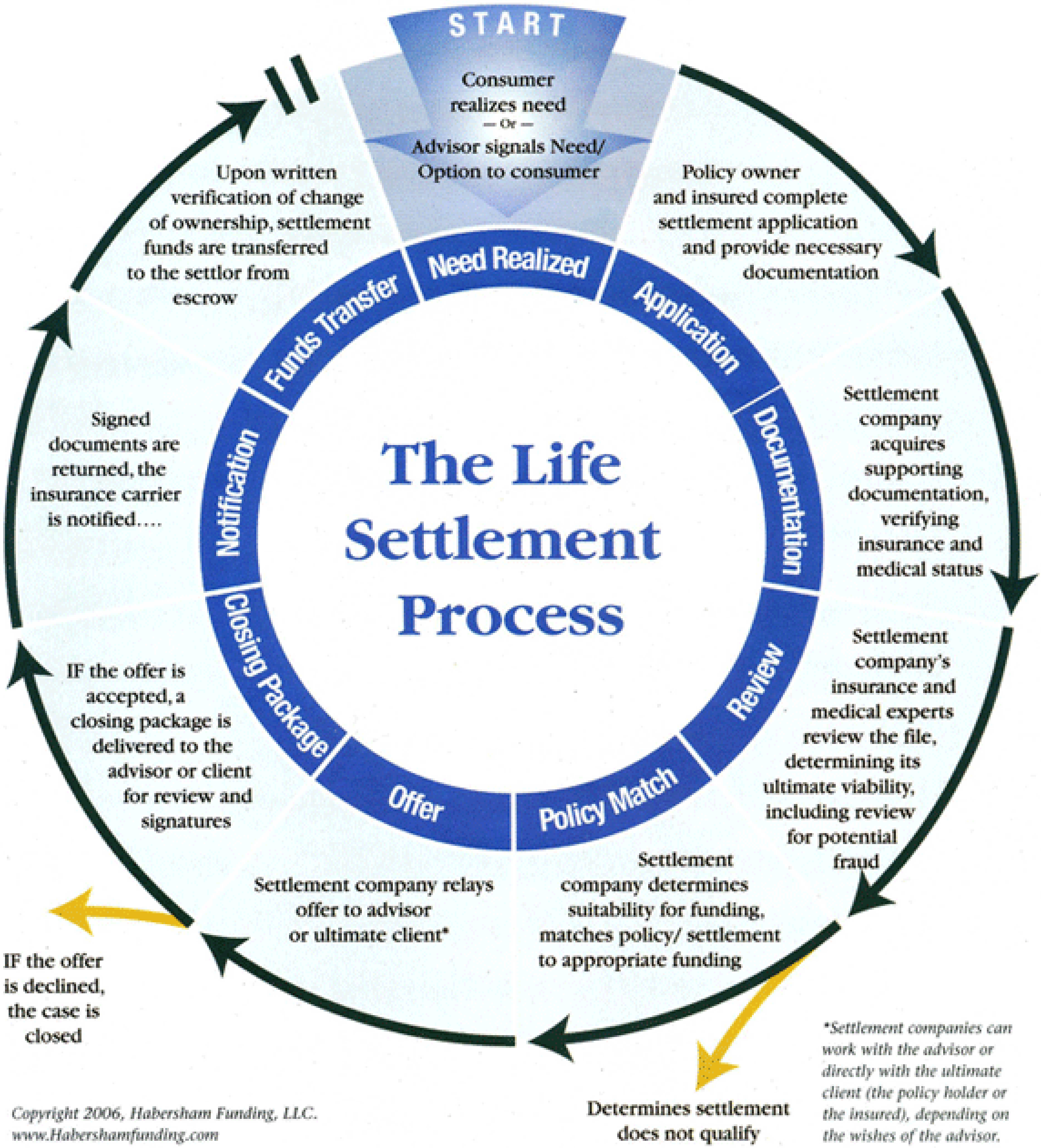
The Life Settlement Process

Companies will competitively bid on the purchase of an existing policy based on the insured's current age, state of health and the overall economic environment

As discussed, a vibrant and highly regulated secondary market for life insurance policies has emerged in recent years as companies have raised pools of capital. These companies competitively bid on the purchase of an existing policy based on the insured's current age, state of health and the overall economic environment. Those who qualify can now get a competitive market quote based on several bids. Here are the nine key steps associated with the life settlement process.

1. **Need Realized.** Consumer realizes a need or an advisor signals the option that he can sell his policy to the consumer.
2. **Application.** Policy owner completes settlement application and provides necessary documentation.
3. **Documentation.** Settlement provider acquires supporting documentation, verifying insurance and medical status. Settlement companies can work with either the advisor or directly with the policy-owner.
4. **Review.** Settlement provider's insurance and medical experts review the file, determining its ultimate viability, including a review for potential fraud.
5. **Policy Match.** Settlement provider determines suitability for sale, and matches policy for appropriate funding. At this point, the settlement company may also determine that the settlement does not qualify, which ends the process.
6. **Offer.** Settlement provider relays the offer to client advisor or ultimate buyer. If the offer is declined, the policyholder can seek other offers with other settlement providers.
7. **Closing Package.** If the offer is accepted, a closing package is delivered to the advisor or client for review and signatures.
8. **Notification.** Signed documents are returned and the insurance carrier is notified.
9. **Funds Transfer.** Upon written verification of change of ownership, settlement funds are transferred to the selling policy owner from Trustee's Escrow Account.

When the transaction is complete, the buyer – or life settlement provider – becomes the new owner of the life insurance policy, pays future premiums and collects the death benefit when the insured dies. The proceeds of the sale can be used in any manner the seller sees fit.


START
Consumer realizes need
— Or —
Advisor signals Need/ Option to consumer
Need Realized
Application
Policy owner and insured complete settlement application and provide necessary documentation
Documentation
Settlement company acquires supporting documentation, verifying insurance and medical status
Review
Settlement company's insurance and medical experts review the file, determining its ultimate viability, including review for potential fraud
Policy Match
Settlement company determines suitability for funding, matches policy/ settlement to appropriate funding
Determines settlement does not qualify
Offer
Settlement company relays offer to advisor or ultimate client*
IF the offer is declined, the case is closed
Closing Package
IF the offer is accepted, a closing package is delivered to the advisor or client for review and signatures
Notification
Signed documents are returned, the insurance carrier is notified....
Funds Transfer
Upon written verification of change of ownership, settlement funds are transferred to the settlor from escrow
The Life Settlement Process
*Settlement companies can work with the advisor or directly with the ultimate client (the policy holder or the insured), depending on the wishes of the advisor.
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What to Look for in a Life Settlement

Life settlements are a smart money management tool, a key consideration in estate and financial planning efforts. Therefore, you should assess them in association with your financial advisors and estate planners

When considering a life settlement, policy owners have several issues they should keep in mind. The first point to remember is that any steps in this direction should be discussed and examined in association with a financial advisor. Whether you turn to an accountant, an attorney, a financial planner or some combination, it's critical to seek professional advice in order to ensure the best possible outcomes.

Life settlements are a smart money management tool; a key consideration in estate and financial planning efforts. Therefore, you should assess them in association with your financial advisors and estate planners. While much information is readily available through trade associations such as LISA, financial advisors should be able to provide relevant referrals.

Also, recognize that regulations will vary by state. You should find out what regulations – if any – apply to your state with regard to life settlements. The key regulations tend to concern licensing rules and whether brokers and providers must provide certain legal "disclosures" – information, guarantees and protections – during the life settlement process. While some states do not mandate these disclosures, policy owners can demand that they be provided by brokers and providers.

Evaluating Brokers and Providers

The next consideration – assuming life settlements remain a compelling option – is whether to work with a life settlement broker or a life settlement provider. It is possible to engage in a life settlement in either fashion. However, most settlements are conducted through a broker, who can then solicit multiple, competitive bids on the insured's behalf. The advantage of working directly with the provider – which is only responsible for its own bid – is that intermediaries are eliminated in the process. When possible, it's best to seek guidance from a financial advisor on this decision.

Whether you choose to work with a broker or provider, the ultimate goal is to obtain the best possible settlement on the best terms. Once a decision is made about the type of settlement broker or provider that will be employed, several criteria should help guide you – the policy owner – in deciding which particular firm (or individual) to engage.

When assessing a life settlement broker (or a provider with whom you will work directly), key criteria to consider are professional reputation, years of experience in the industry and past performance with settlements.

Professional reputation is a mark of how a particular individual broker or firm is perceived within the industry. Are their customers satisfied? Are they licensed in a significant number of jurisdictions? Have they obtained references and testimonials? Do they belong to a recognized industry trade association such as LISA and holds them in good standing? Has any insurance department taken any adverse regulatory action against the individual or firm?

When judging years of experience, take into account that the life settlement industry is relatively young. An individual with four or five years of solid experience can be a very appropriate service provider.

The most critical element is past performance. How many settlements handled in a typical year and, more importantly, what amounts have been acquired for clients. Ask the broker to walk you through past cases that are similar to your own and show the results. And ask the broker for client references.

<u>Relevant Disclosures</u>

Whatever the particular state's regulations, there are certain industry-standard practices that all brokers should follow and certain disclosures that should be made

Finally, it is important to ensure that relevant disclosures are presented for mutual consideration and signature. Whatever the particular state's regulations on such matters, there are certain industry-standard practices that all brokers should follow and certain disclosures that should be made to the policy seller.

Among the key disclosures pertaining to the life settlement application process that might be drawn from the model regulations of the National Association of Insurance Commissioners (NAIC) are:

- The policy seller has the right to rescind a life settlement contract for fifteen (15) calendar days after the receipt of the of the life settlement proceeds from the provider.

- Funds will be sent to the policy seller within three (3) business days after the life settlement provider has received the insurer or group administrator's acknowledgement that ownership of the policy or interest in the certificate has been transferred and the beneficiary has been designated.

However, it's also important to note that disclosures should sufficiently warn policy sellers about other factors of concern. One relevant disclosure: "Some or all of the proceeds of a life settlement may be taxable under federal income tax and state franchise and income taxes. Assistance should be sought from a professional tax advisor." Another: "Proceeds of the life settlement could be subject to the claims of creditors." If the seller is within two years of death, there is also the possibility of obtaining "accelerated death benefits" from a life insurance company.

Clearly, policy owners should engage in life settlements with their eyes wide open. Understanding all the implications of making a life settlement will ensure the most satisfactory and successful outcomes. Ensuring that all the relevant disclosures are provided by the firms with which one works is an important part of this equation.

After a life settlement provider's bid has been accepted, one should expect a different set of disclosures at the time of contract in the closing package. Among the key disclosures:

- State the affiliation, if any, between the life settlement provider and the issuer of the insurance policy that is being settled.

- The life settlement provider shall disclose to a prospective seller the amount and method of calculating the broker's compensation. The term "compensation" includes anything of value paid or given to a life settlement provider for the placement of a policy.

- State the name, business address and telephone number of the independent third-party escrow agent, and the fact that the policy seller may inspect or receive copies of the relevant escrow or trust agreements or documents.

It's important to recognize that the broker has a fiduciary role to represent the seller by law. The broker's job is to fully represent the interests of the policy seller

Such disclosures ensure the policy seller is protected should any problems occur in the final process of policy transfer or the handling of escrowed funds. In some cases, errors and omissions insurance may also be offered to cover these possibilities.

It's important to recognize that the broker has a fiduciary role to represent the seller by law. While the broker is most likely to receive a commission based on the amount of the life settlement (and it's perfectly acceptable to ask the broker to clarify those arrangements), the bottom line is that the broker's job is to fully represent the interests of the policy seller.

As mentioned, one key way to ensure that brokers and providers are reputable is to check their affiliation with recognized trade groups such as LISA. In defense of the interests of consumers, LISA requires all its members to sign a code of ethics and follow its Standard Operating Practices.

About LISA (Life Insurance Settlement Association)

LISA membership indicates a company has spent time, money and effort to comply with government and public standards

LISA was founded in 1995 as a non-profit trade association for members of the viatical and life settlement industry and associated businesses. It is the oldest and largest association in the business with more than 120 company members. LISA's core mission is to actively represent the interests of consumers, ensuring they have a full range of choice and protection with respect to life insurance settlements.

Since its inception, LISA has been a leader in promoting responsible legislation and regulation of the industry. It has contributed conceptual and detailed language to actual laws governing the industry in most states.

These efforts have resulted in improved public information and awareness. They also have helped create a competitive marketplace for the purpose of providing the consumer a valuable financial service.

Trade association membership indicates a company has spent time, money and effort to comply with government and public standards. Members of LISA are kept abreast of the latest activity in the areas of securities legislation and regulation of the business.

What LISA Can Do for You:

LISA is a non-profit trade association dedicated to serving the public with the highest degree of standards. It is a valuable source of information for the consumer, member companies, regulators, legislators and all interested parties. It is regarded as the most comprehensive authority in the life settlement and viatical business.

The association offers many benefits and services to the public, including:

- **Referral Services**: LISA Member companies are experienced, knowledgeable and held to the highest ethical standards. You can refer to its member company section **at lisassociation.org** for a list of companies.
- **Licensing**: Many states regulate the life settlement and viatical business. LISA will identify whether or not your life settlement is a regulated transaction in your state.
- **Legislation and Regulation**: There are laws or pending rules in many states. LISA can provide you with specific rules in your state or assist you in determining where to find the information.
- **Questions and Answers**: The association's website was designed to provide you with the information necessary to be informed regarding the life settlement and viatical settlement business. Feel free to call LISA's home office with any questions or assistance you may need.

LISA is dedicated to serving the public.

Any questions or comments are welcome.
Feel free to e-mail LISA at
support@lisassociation.org
or call (407) 894-3797.