



## OVERVIEW OF THE LIFE SETTLEMENT PROCESS

### *Selling Your Life Insurance Policy*

Today it is possible for you to sell your life insurance policy to a life settlement provider (“Provider”), for an immediate cash payment. This financial arrangement is known as a life settlement (“Life Settlement”).

It may not always be in your best interest to sell your life insurance policy. Therefore, before you take action, you may want to be sure you seek competent legal and financial advice. In addition, you may want to understand the following:

- What current or future benefits you may lose if you sell your life insurance policy; and
- What other options may be available to you instead of selling your life insurance policy.

Selling your life insurance policy is a complex financial arrangement. This guide will help you make an informed decision.

We suggest that you:

1. Evaluate your financial needs
2. Check all your options
3. Understand how the process works
4. Know your rights
5. Check with your state insurance department.

### *Step 1, Evaluate Your Needs*

Before you sell your policy and give up valuable life insurance protection, think about whether your need for life insurance has changed since you bought the life insurance policy. If it has not changed since you purchased your life insurance policy, selling your policy may not be the right choice. If you sell your life insurance policy now, your beneficiaries **will not** be paid a benefit at the time of your death.

If you sell your life insurance policy now, remember premiums increase as you grow older. You may not want to pay the higher cost to replace your coverage should you decide that you need life insurance protection later.



## *Step 2, Check All of Your Options*

Did you know that you may be able to receive the cash you need now without selling your policy?

### **Policy Cash Values**

Contact your current life insurance agent or company to see if you have any cash value in your policy. If you do, ask if you can:

1. Borrow from the cash value and still keep the insurance in force,
2. Surrender the policy for its current cash value,
3. Use the cash value as collateral to get a loan from a financial institution.
4. Ask if there are other options available to you.

Your insurance company must tell you about your options if you ask.

### **Accelerated Death Benefits**

Find out if your policy has an “Accelerated Death Benefit” option. It may be your best choice.

Many life insurance policies do have an accelerated death benefit option. With that benefit, policyholders who are terminally ill, affected with certain diseases or permanently confined in a nursing home can access 50% or more of a policy’s death benefit while still living. An accelerated death benefit could pay you a large part of your policy’s death benefit and you could keep your policy.

A very important feature of the accelerated benefit is that when the policyholder dies, the beneficiaries get the remaining death benefit. This means that eventually 100% of the policy benefits will be paid out either to the insured or the beneficiary.

### **Other Considerations**

Think about what it will mean if you do sell your policy. Check out the tax implications. Not all proceeds from a Life Settlement are tax-free.

Find out if creditors could claim any of the money you would get from a Life Settlement.

Find out if you will lose any public assistance benefits such as Medicaid or other government benefits if you accept a cash settlement for your life policy.



## **Comparison Shop**

To learn the Life Settlement market value of your life insurance policy, it is a good idea to contact three to five Life Settlement Providers. Another option is to use a Life Settlement Broker (“Broker”) who would contact several Life Settlement Providers for you to help you determine the Life Settlement market value of your life insurance policy. Your financial advisor can help you decide whether to work directly with a Life Settlement Provider or through a Life Settlement Broker.

## **Summary**

Everyone’s financial situation is different. A Life Settlement may or may not be the best answer for you. Check it out for yourself. We recommend that you ask a financial advisor who is qualified to review your finances to help you review your options.

## ***Step 3, How the process works***

If you decide to sell your life insurance policy to a Life Settlement Provider, you will enter into a Life Settlement contract with the Provider. You, the policy owner, would agree to accept a cash payment in exchange for your life insurance policy. The amount that you would receive would be less than the face amount the policy which would be paid upon your death. (For example, you might agree to accept a \$75,000 cash payment now for a policy with a death benefit of \$100,000).

## **The Provider Buying Your Policy Would:**

- Become the new owner of your policy,
- Name the beneficiary,
- Collect the full death benefit when you die,
- Begin paying premiums on the policy, and
- Sell your policy again.



## **There are Four Basic Phases Required to Complete a Life Settlement Transaction.**

### *Phase 1— Qualifying To Sell Your Policy (Underwriting)*

The Life Settlement Provider will need information about you before making an offer. Usually it will take some preliminary information from you over the phone and the Provider would send paperwork for you to sign including but not limited to the following:

- A medical release form so the Provider can receive and review your medical records; and
- An authorization form to contact your insurance company to confirm benefits, premiums, and ownership of your policy.

In order to avoid delays, it is important that you give complete and accurate information about your medical history.

If you apply to more than one Life Settlement Provider, each Provider will contact your doctor for medical records and your insurance company for policy information.

### *Phase 2—Calculating the Offer*

The Life Settlement Provider uses the information it gets in the underwriting phase to make an offer. In order to develop an offer, a Life Settlement Provider takes into account various factors including but not necessarily limited to:

- Estimated life expectancy and medical condition of the insured. Generally, the shorter the life expectancy of the insured, the more the Provider will offer for the policy;
- The amount of life insurance coverage;
- Loans or advances, if any, previously taken against the policy;
- Amount of premiums necessary to keep the life insurance policy in force;
- The rating of the issuing insurance company;
- Prevailing interest rates; and
- State laws, if any, that require a minimum payment.

### *Phase 3—Closing the Agreement*

- If you accept an offer, a closing package is forwarded to you, the Policy owner, for approval and signature. Closing documents typically include an offer letter, a Life Settlement Contract, and the forms the insurance company needs to transfer ownership of the policy to the Provider.
- The closing documents are then returned to the Provider for its signature.
- The Provider will put the cash payment owed to you in escrow, if required, and send the signed insurance change forms to the insurance company to record the change.



#### *Phase 4—Receiving the Payment*

Once the insurance company notifies the Provider that the changes on the life insurance policy have been recorded, the payment is released to you, the Policy owner, usually in the next few business days.

In many states, you may have the right to change your mind about the Life Settlement AFTER you receive the money, provided you return all the money. Typically the law allows 15 days to review your Life Settlement arrangement; however, this time period may vary in different states.

#### *Step 4, Know your rights*

##### **State Laws**

Many states have laws that provide important consumer protections. You will want to contact your state insurance department to see which of the following consumer protections your state requires. Determine if:

- A Broker or Provider arranging Life Settlements must be licensed with your insurance department.
- The Life Settlement Provider buying your policy must keep your identity and medical history confidential unless you give written consent to tell others.
- To protect your proceeds, the Life Settlement Provider buying your policy must put your money into an escrow account with an independent party during the transfer process.
- You have the right to change your mind about the Life Settlement AFTER you receive the money, provided you return all the money.
- The new owners of your life insurance policy may be limited in how often they may contact you about your health status.

##### **Federal Tax Laws**

Remember that, as when interpreting any tax laws, it is always best to check with your own financial and tax advisor.

Two groups of people may receive benefits from a Life Settlement without owing federal income tax:

- Persons who have been diagnosed with a terminal illness and with a life expectancy of 24 months or less; and
- Certain chronically ill individuals.

If you qualify for this federal tax-free treatment, you also must use a Life Settlement Provider that is licensed in the state where you live, or, in states where licensing is not required, that complies with the standards of the National Association of Insurance Commissioners' Viatical Settlements Model Act.



## **Avoiding Consumer Fraud**

- ◆ If you are in good health and someone asks you to sell your life insurance policy, proceed with caution. Remember that Life Settlements are usually intended for people living with life-threatening or chronic illnesses. Contact your state insurance department for more information.
- ◆ If you have been contacted by someone who wants you to buy a policy and then sell it immediately, you should contact your state insurance department. You may be a target for insurance fraud.
- ◆ If you are asked to buy a life insurance policy for the sole purpose of selling it, you may be participating in fraud.
- ◆ If you are asked to invest in a Life Settlement, we recommend you contact your state insurance department to learn more about the issues and risks that might be involved in such an investment.



## *Step 5, Check with Your State Insurance Regulator*

### **State Licensing**

Find out if your state licenses Life Settlement Providers and Brokers. For a complete list of authorized Life Settlement Providers, Life Settlement Brokers, and their representatives, call your state Department of Insurance.

### **Policy owner Checklist**

Before you sell your policy, be sure you know the answers to these questions.

### **Evaluating Your Needs**

- Do you still need life insurance?
- Do you have dependents that might rely on your life insurance benefits should anything happen to you?
- If you do not need life insurance protection now, what are the chances you will need it in the future?

### **Current Policy Benefits**

- Can you borrow from the cash value?
- Can you cancel the policy for its current cash value?
- Can you use the cash value as collateral to get a loan from a financial institution?
- Do you have an accelerated death benefit feature?

### **Taxes and Other Financial Considerations**

- Is the money you get from selling your life insurance policy taxable?
- Will the money you get from selling the policy affect your eligibility for government benefits?
- Do you need the advice of a tax or estate planning specialist before you decide to sell your policy?
- If you sell your policy, can any of your creditors claim the money?



## Understanding the Process

- If you sell your policy, who will be the legal owner?
- Is the Provider buying your policy licensed?
- If you sell your policy, how will the value you get be calculated? What interest rate will be used?
- If you sell your policy but then change your mind, can you get your money back?
- Will investors have specific information about you, your family or your health status?
- How are fees or commissions paid to the Broker or Provider?

## Protections in Your State

Contact your state insurance department to find out if there are any laws governing Life Settlements.

I hereby acknowledge that I have read and understood the foregoing.

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Signature

\_\_\_\_\_  
Date