

# Life Settlements

Executive Brief for Financial Advisors

*Life settlements represent one of the most important financial innovations of the past 25 years. To learn more about how this groundbreaking transaction has transformed financial services, and what it means to your business, read on.*

## **Power to the Policyowner.**

Life settlements have changed the way we think about life insurance. For consumers, life settlements and the secondary market for life insurance have unlocked the market value of life insurance, transforming unneeded policies into assets with significant value. For advisors, life settlements open a host of new strategies for strengthening portfolios and building client relationships. In sum, the life settlement industry represents a vibrant pro-consumer market that is creating new solutions and generating extraordinary value every day.

## **More Value for Life Insurance.**

Life insurance represents a valuable financial solution to the various needs of businesses and families. Over time, however, these needs change. Loans are repaid; key executives retire; estates become smaller; businesses are sold; estate taxes are reduced — or better yet, no longer exist. Or, with interest rates down, a policy may just be too expensive. According to a leading actuarial consulting firm, 88% of all universal life and 85% of all term policies never result in a death claim. In the past, these policies were surrendered to the insurer for their cash value, or worse, allowed to lapse for nothing at all.

Life settlements present a compelling alternative. By allowing policyowners to access the market value of their policies, life settlements generate significantly more than surrender value for unneeded policies. And this value can create enormous opportunities for policyowners and advisors alike.

## **One Transaction. Multiple Applications.**

A life settlement is a financial transaction in which a policyowner sells an unneeded life insurance policy for more than the policy's cash

value and less than its face value. But life settlements represent much more than an exit strategy for unneeded life insurance policies. With the assistance of an experienced advisor, a life settlement can be a springboard to achieving a client's broader financial objectives. Consider these common scenarios:

- Policy replacement – a client who needs to adjust his coverage benefits by selling a policy on the secondary market and using the proceeds to acquire a more appropriate policy, rather than converting an existing policy.
- Recouping term premiums – clients who no longer need or can no longer afford their term policies can use a life settlement to eliminate future premiums and recoup their overall premium outlay.
- Restructuring cash flow – a client with reduced cash flow due to lower estate values uses the proceeds from a life settlement to fund a policy with more affordable premiums.

These cases illustrate how a life settlement creates new solutions, and opens new opportunities that previously did not exist.

### **Ideal Candidates**

Life settlement candidates are generally high net worth clients age 60 and over with:

- A life insurance policy with a face amount of at least \$250,000.
- Life expectancy of 21 years or less.

Common scenarios leading to a life settlement include:

- The client has outlived the risk insured against.
- A spouse has passed away.
- A business partnership has dissolved.
- A key employee has retired after a long career.

In other cases, investment projections may have proven unduly optimistic in the current low-interest environment. So-called "vanishing" premiums have not vanished, and the financial plan built around the policy is not being met. In such cases, the owner

may want out of his policy, either to move the value into another asset or to buy a more efficient insurance policy.

### **Transaction Process**

The life settlement process begins with Coventry's sophisticated valuation system that determines the market value of a life insurance policy. Here is how the process works:

- A completed application and authorization is submitted to Coventry along with carrier illustrations and the insured's medical records for the last five years.
- Coventry values the policy to determine if an offer can be made.
- Coventry relays the offer to the advisor.
- Once an offer is accepted, Coventry issues closing documents.
- After receiving the executed closing documents, change of ownership and beneficiary forms are sent to the life insurance company.
- Upon confirmation of the change forms being processed, funds are released to the policyowner.

### **The Importance of Due Diligence**

While most states regulate life settlements, it is important for advisors to conduct their own due diligence to protect their clients' interests. It is essential that you work with a firm that can demonstrate a strong track record of successfully completing transactions smoothly and efficiently. Verify that the firm holds the appropriate licenses for conducting business in the policyowner's state. Be sure that they are backed by institutional capital, as this provides the highest degree of consumer protection with regard to privacy and confidentiality. And avoid providers who purchase policies for individual investors.

The sale of a life insurance policy may be a taxable event. Sellers of life insurance policies should seek advice from their tax advisor based on their own particular circumstances.

Policy: **Universal Life**

Insured: **Male, age 79**

Face Amount: **\$8,000,000**

Cash Value: **\$33,623**

### **Coventry purchased policies for \$600,000**

Two policies were originally purchased for estate planning purposes but the client's estate had decreased in value. As a result, the policyowner was "over-insured" and wanted to dispose of the unneeded coverage. Rather than accepting the policies' surrender value of \$33,623, his advisor recommended a policy valuation from Coventry, which enabled the policyowner to realize \$600,000 in a life settlement.

Policy: **Term**

Insured: **Male, age 70**

Face Amount: **\$5,000,000**

Cash Value: **\$0**

### **Coventry First purchased policy for \$150,000**

The policyowner had experienced a significant decrease in the value of his estate and no longer needed the coverage. He was considering letting the policy lapse when his advisor suggested a policy valuation which resulted in a life settlement offer of \$150,000. By accepting the offer, the client eliminated his future premium payments and recouped his previous premium outlay.

Policy: **SUL**

Insureds: **Male, age 79 / Female, age 77**

Face Amount: **\$3,000,000**

Cash Value: **\$0**

### **Coventry First purchased policy for \$150,000**

The policyowners had originally purchased the policy to protect their estate, but the recent market downturn had reduced the estate's value and the insurance was no longer needed. Their advisor suggested a life settlement as a way to offset the losses they had suffered in other investments. The policy was appraised and Coventry purchased it for \$150,000 which the policyowners used to supplement their retirement income and maintain their lifestyle.

## **About Coventry**

For more than 25 years, Coventry has been redefining insurance. By uniquely bridging capital and insurance markets, we created the secondary market for life insurance. Opening a wealth of opportunities for consumers, financial professionals and institutional investors alike. Our efforts have delivered more than \$2.7 billion to policyowners. And launched a global longevity market with a projected value in excess of \$21 trillion.

As the market leader, we continue to drive the industry forward. By expanding opportunities for consumers with new transactions like SWAPP<sup>®</sup> and Simplified Settlements<sup>SM</sup>. And by setting new standards of excellence in everything we do. We are making life insurance more flexible, more powerful, more valuable. And it will never be the same.

## **Next Steps**

To learn more about the benefits and opportunities presented by life settlements, call 877-836-8300 or visit [coventry.com](http://coventry.com).

This brochure is not intended for consumers.



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