

SWAPP[®]

Executive Brief for Financial Advisors

SWAPP enables policyowners to optimize their life insurance while reducing or eliminating premium payments. It is a revolutionary transaction for the secondary market for life insurance. As a result, SWAPP will redefine how you manage your clients' life insurance assets and allow you to offer a compelling new estate planning option. We invite you to learn more.

INSURANCE OPTIMIZED.

Life insurance has long been a valuable estate planning tool. However, the cost of maintaining insurance for older, affluent individuals presents significant challenges. Underperforming policies, due to low interest rates combined with longer life expectancies, often put the annual premium outlay beyond what a policyowner chooses to maintain.

Still, the need for adequate coverage remains. Prior to the secondary market for life insurance, few options existed for consumers seeking to retain life insurance while eliminating premium payments. Nonforfeiture laws provide for surrender of the policy back to the life insurer for cash or exchange by the issuer for a reduced paid-up benefit. Because both options are based on a value determined by the issuing life insurer, they frequently undervalue the policyowner's asset. The introduction of the secondary market enables policyowners to benefit from the market value of the original policy, providing more value than a traditional exchange based on the cash surrender value.

THE POWER OF SWAPP.

In each of the following transactions, SWAPP makes it possible to eliminate premium payments while retaining a portion of the death benefit premium-free. Here are some examples of how SWAPP can be tailored to the policyowner's individual situation.

- The policyowner may receive a cash settlement in addition to retaining a portion of death benefit.
- If a policyowner's need for insurance will decrease over time, SWAPP can be designed to meet that need by providing a decreasing death benefit option.

The result is a revolutionary shift in how life insurance assets are managed. Instead of accepting the carriers' nonforfeiture options, advisors are now having a client's policy appraised to determine the market value. The information provided by these appraisals helps policyowners use their capital more efficiently.

IDEAL CANDIDATES.

To qualify for SWAPP, clients must be age 60 or older with:

- a life insurance policy with \$500,000 minimum face amount.
- a life expectancy of 20 years or less.

Common scenarios leading to a SWAPP include any number of situations in which a policyowner wishes to eliminate premium payments while still retaining life insurance, such as:

- reduction in the value of an estate or business.
- existing insurance is performing below expectations.
- retirement or sale of a business.
- change in marital status.
- client gifts for premiums are now subject to gift tax.

TRANSACTION PROCESS.

A SWAPP begins with Coventry's sophisticated valuation system which determines the market value of a life insurance policy.

Here is how the process works.

- Coventry reviews the policy to determine whether an offer can be made.
- If the policy qualifies, Coventry relays the offer to the advisor.
- Once an offer is accepted, Coventry issues closing documents.
- The policyowner designates an irrevocable beneficiary for the agreed upon amount of the death benefit.
- After receiving the executed closing documents, change of ownership and beneficiary forms are sent to the life insurance company.
- Any additional settlement funds are released.

ESTABLISHING BEST PRACTICES.

It has never been more important for advisors to understand the value of their clients' assets and what opportunities are available.

Sound financial management dictates that advisors appraise their clients' holdings regularly. While providing advisors with a new source of value for their clients, SWAPP also represents a powerful tool for enhancing relationships and growing an advisor's business. Specifically, SWAPP encourages financial advisors to:

- review a client's portfolio on a regular basis.
- help clients understand the market value of their policies.
- assist clients in optimizing their life insurance.
- suggest more efficient investment opportunities.

THE IMPORTANCE OF DUE DILIGENCE.

All secondary market transactions from Coventry are funded with institutional capital. Not only does institutional backing provide a secure funding source, it also provides a higher degree of consumer protection with regard to privacy and confidentiality.

It is important for advisors to conduct their own due diligence to protect their clients' interests. It is essential that advisors 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 and be sure that they are backed by institutional capital.

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.

SWAPP

INSURED	Male age 73	FACE AMOUNT	\$5,000,000
POLICY	Universal Life	CASH VALUE	\$272,000

In addition to providing the policyowners with \$272,000 for their policy, Coventry First enabled them to maintain a \$1.7 million death benefit with no future premium obligations.

The policy was originally purchased by two siblings as part of their father's estate plan. The estate had since lost value, reducing the need for the current level of life insurance. After obtaining a life settlement offer of approximately \$910,000, their advisor suggested SWAPP as an alternative. Coventry First purchased the policy for \$272,000 and the policyowners retained a \$1.7 million death benefit with no future premium obligations.

SWAPP

INSURED	Male age 66	FACE AMOUNT	\$1,000,000
POLICY	Universal Life	CASH VALUE	\$37,677

Coventry First provided the policyowner with \$250,000 in death benefit with no future premium obligations.

The policyowner, a retirement-aged CPA, was seeking reduced premium payments while maintaining an adequate level of life insurance. Due to a change in health, the cost of new insurance was high, so his advisor recommended a policy valuation. The market value of the policy was significantly more than the cash value, which enabled the policyowner to pursue a SWAPP. Coventry First provided the policyowner with \$250,000 in death benefit with no future premium obligations. This allowed the policyowner to redirect his premium allocation to the acquisition of a second policy which, together with his \$250,000 in death benefit, provided him the life insurance he needed within his budget.

SWAPP

INSURED	Male age 62	FACE AMOUNT	\$5,000,000
POLICY	Universal Life	CASH VALUE	\$0

Coventry First provided \$130,000 for the policies and the policyowner retained a decreasing death benefit with no future premium obligations, beginning at \$1,500,000 and stabilizing at \$700,000.

A business owner purchased two term policies with a total face value of \$5,000,000. After experiencing a change in health, he had them converted into two \$2.5 million UL policies. Although his business reflected solid value, cash flow was limited. The policyowner had two goals: solve the short-term liquidity issues and sell the business within five years. He and his financial advisor agreed that retaining life insurance in the \$1-1.5 million range would cover his necessary insurance needs and he should have the policies valued in the secondary market. Coventry First provided \$130,000 for the policies and the policyowner retained a decreasing death benefit with no future premium obligations, beginning at \$1.5 million for years one and two, reducing to \$1 million in years three to five, followed by a gradual reduction each year, stabilizing at \$700,000.

ABOUT COVENTRY

Coventry created the secondary market for life insurance and established a new class of consumer-driven secondary market transactions. By uniquely bridging insurance and capital markets, we have opened a wealth of opportunities for policyowners and the financial professionals who serve them. Our efforts have delivered more than \$3 billion to policyowners, which is approximately three times more than they would have received from the issuing life insurance companies.

As the market leader, Coventry continues to drive the industry forward. By expanding opportunities and setting new standards of excellence in everything we do, Coventry is making life insurance more flexible, more powerful and more valuable. And it will never be the same.

NEXT STEPS.

To learn more about SWAPP and other new options available through the secondary market for life insurance, call 877-836-8300 or visit coventry.com.

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COVENTRY
REDEFINING INSURANCE®