

# Life Settlements

Executive Brief for Financial Advisors

*Life settlements represent one of the most important financial innovations of the past 30 years. By recognizing the fundamental right of policyowners to assign their policies, life settlements have created a more competitive life insurance market where consumers enjoy new options and greater value every day. To learn more about what this powerful transaction means to your business, read on.*

## **MORE VALUE FOR LIFE INSURANCE.**

It has never been more important for advisors to understand the potential 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, life settlements also represent a powerful tool for enhancing relationships and growing your business. Financial advisors should be encouraged 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; and
- suggest more efficient investment opportunities.

## **ONE TRANSACTION. MULTIPLE APPLICATIONS.**

A life settlement is an opportunity for a policyowner to sell an unneeded life insurance policy for more than the policy's cash surrender value and less than its face value. But life settlements can 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 policyowner's broader financial objectives, as the following examples illustrate.

- Recouping term premiums – a policyowner who no longer needs a term policy can use a life settlement to eliminate future premiums and recoup a portion of their overall premium outlay.
- Restructuring cash flow – a policyowner with limited cash flow can use the proceeds from a life settlement to fund immediate needs while eliminating future premium payments.
- Retained death benefit – a policyowner can choose to retain a portion of the coverage while eliminating future premium obligations.

The result is a revolutionary shift in how life insurance assets are managed. Instead of accepting the life insurers' nonforfeiture options, advisors are now having their clients' policies reviewed to explore their market value. The information provided by these valuations can help policyowners use their capital more efficiently.

**IDEAL CANDIDATES.**

Life settlement candidates are insureds age 65 and over with:

- a life insurance policy face amount of at least \$100,000; and
- a life expectancy up to 20 years.

Common scenarios leading to a life settlement include any number of situations in which a policy is no longer meeting the policyowner's needs, such as:

- the insured has outlived the need for the policy;
- a change to the overall financial plan;
- the end of the term conversion period is approaching;
- an increase in premiums due to a rising cost of insurance;
- a business partnership has dissolved;
- a key employee has retired and the coverage is no longer needed;
- "vanishing" premiums have not vanished;
- the owner wants to move the policy's market value into another asset or buy a more efficient insurance policy;
- reduction in the value of an estate or business;
- retirement or sale of a business; or
- a change in marital status.

**TRANSACTION PROCESS.**

The life settlement process begins with Coventry's valuation system to determine if an offer can be made. Here is how the process generally works.

- A completed questionnaire and authorization are submitted to Coventry along with carrier illustrations and the insured's medical records for the last five years.
- Coventry evaluates 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 Coventry receives the completed closing documents, the change of ownership and beneficiary forms are sent to the life insurance company.
- Upon confirmation that the change forms have been processed by the carrier, funds are released to the seller.

<b>INSURED</b>	<b>Male age 72</b>	<b>FACE AMOUNT</b>	<b>\$1,500,000</b>
<b>POLICY</b>	<b>Term</b>	<b>CASH VALUE</b>	<b>\$0</b>

**Coventry provided the policyowner with \$20,000**

The policyowner, a single father, took out a term policy years ago to provide income protection for his daughter. Once his daughter was married, he no longer needed the coverage and was planning to lapse the policy. Coventry First provided the policyowner with \$20,000, where he otherwise would have received nothing.

<b>INSURED</b>	<b>Male age 80</b>	<b>FACE AMOUNT</b>	<b>\$500,000</b>
<b>POLICY</b>	<b>Universal Life</b>	<b>CASH VALUE</b>	<b>\$28,356</b>

**Coventry provided the policyowner with \$110,000**

The policyowner purchased a life insurance policy to provide protection for his family. Since his children were now grown with families of their own and he maintained additional coverage, the need for these policies no longer existed. Coventry First provided the policyowner with \$110,000, which he used to supplement his retirement and plan a family vacation.

<b>INSURED</b>	<b>Male age 70</b>	<b>FACE AMOUNT</b>	<b>\$1,080,676</b>
<b>POLICY</b>	<b>Whole Life</b>	<b>CASH VALUE</b>	<b>\$0</b>

**Coventry provided the policyowner with \$150,000 and a \$50,000 retained death benefit.**

A successful business owner took out three policies to provide income protection for his wife. After deciding to pass the business down to his son, there was an unfortunate falling out within the family. The policyowner and his wife were left with no income and could no longer afford to keep the policies in force. With the Retained Death Benefit option, Coventry First provided the policyowner with \$150,000 in cash and a \$50,000 death benefit with no future premium obligations.

<b>INSURED</b>	<b>Female age 53</b>	<b>FACE AMOUNT</b>	<b>\$1,000,000</b>
<b>POLICY</b>	<b>Term</b>	<b>CASH VALUE</b>	<b>\$0</b>

**Coventry provided the policyowner with \$81,500.**

The policyowner took out a term policy to provide security for her daughter. After being diagnosed with a serious illness, she wanted to spend more time with her daughter and needed some help covering her medical expenses. Coventry First provided the policyowner with \$81,500, where she otherwise would have received nothing. She used the proceeds to cover her expenses and enjoy time with her family.

#### **POWER TO THE POLICYOWNER®.**

Life settlements have changed the way we think about life insurance. For policyowners, life settlements 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.

Life settlements represent a valuable financial solution to the various needs of families and businesses. Over time, life insurance needs change. Loans are repaid; key executives retire; estates become smaller; businesses are sold; estate tax liabilities are reduced; level term premiums come to an end. Or, with interest rates down, a policy may be too expensive to maintain.

By enabling policyowners to access the market value of their policies instead of surrendering them back to the insurance company, life settlements can create enormous opportunities for policyowners and advisors alike.

#### **ESTABLISHING BEST PRACTICES.**

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 always important for advisors to conduct their own due diligence to protect their clients' interests. Advisors should work with a buyer that can demonstrate a strong track record of successfully completing transactions smoothly and efficiently. It is essential to verify that the firm holds the appropriate licenses for conducting business in the policyowner's state.

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.

## **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 \$3.5 billion to policyowners.

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 life settlements and other new options available through the secondary market for life insurance, call 877-836-8300 or visit [coventry.com](http://coventry.com).

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