

## PREMIUM INCREASES AND CHANGES IN SURVIVOR & ESTATE PLAN NEEDS

### PROMPT WIDOW TO REVISIT HER LIFE INSURANCE PLAN



#### THE SITUATION

Josephine Woods<sup>1</sup> purchased a \$500,000 universal life insurance policy in 2000 for estate planning purposes and for her husband's survivor needs. Josephine, now age 85, was referred by her accountant to a ValMark Advisor for a comprehensive life insurance review. After a thorough analysis by Valmark's Policy Management Company, it was determined that Josephine had a 90% chance of outliving her coverage if she didn't increase premium payments substantially. The detailed review of the policy also found that the policy was no longer needed for estate planning or survivor needs, since Josephine's husband was deceased. Josephine and her children, who were trustees of the trust, decided to sell the policy in lieu of increasing premium payments, lapsing or surrendering the policy. Josephine wanted to see her children enjoy the money now.

#### FOUR OPTIONS

The ValMark Advisor provided Josephine and her children with four options: surrender the policy, reduce the death benefit, pay increased premiums, or the fourth option—sell the policy. Instead of surrendering the policy, Josephine took the Advisor's recommendation and decided to pursue selling the policy through a life settlement. Josephine's life expectancy was about 7 years.

#### THE OUTCOME

ValMark's life settlement team worked with multiple providers through a professional bidding process and negotiated a settlement offer which resulted in a total gross offer of **\$155,000 or 6X the cash surrender value** (before commissions and expenses<sup>2</sup>).

#### SUMMARY

POLICY TYPE	Universal Life
DEATH BENEFIT	\$500,000
CASH SURRENDER VALUE	\$25,000

<b>LIFE SETTLEMENT OFFER</b>	<b>\$155,000 Gross<sup>2</sup></b>
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#### THE TAKEAWAY

In most states insurance carriers are not required to tell owners of life insurance policies that they have the option to sell their policy in lieu of lapsing or surrendering their policy.<sup>3</sup> It is the responsibility of the advisor to educate clients regarding the life settlement option. This is an overlooked 4<sup>th</sup> option that the Policy Service Company addressed in its policy review. Consider a life settlement as an alternative to lapsing or surrendering the policy.

<sup>1</sup> Client name has been changed to protect confidentiality. | <sup>2</sup> The gross offer will be reduced by commissions and expenses related to the sale. | <sup>3</sup> Insurancenewsnet.com, The New Face of Life Settlements. | Each client's experience varies, and there is no guarantee that a life settlement will generate an offer greater than the current cash surrender value. In such cases, the client can always surrender their policy to the carrier if the coverage is no longer needed. This material is intended for informational purposes only and should not be construed as legal or tax advice or investment recommendations. Consult a qualified attorney, tax advisor, investment professional or insurance agent about the issues discussed herein. Securities offered through ValMark Securities, Inc. Member FINRA/SIPC.



## LIFE SETTLEMENT DISCLOSURE

- In a life settlement agreement, the current life insurance policy owner transfers the ownership and beneficiary designations to a third party, who receives the death proceeds at the passing of the insured. As a result, this buyer has a financial interest in the seller's death.
- A policy owner should consider the continued need for coverage, and, if the policy owner plans to replace the existing policy with another policy, the policy owner should consider the availability, adequacy and cost of comparable coverage.
- Policy owners considering the need for cash should consider other less costly alternatives.
- When an individual decides to sell their policy, he or she must provide complete access to his or her medical history, and other personal information, that may affect his or her life expectancy. This information is requested during the initial application for a life settlement.
- After the completion of the sale, there may be an ongoing obligation to disclose similar and additional information at a later date.
- Individuals should discuss the taxation of the proceeds received with their tax advisor.
- ValMark Securities supervises all life settlements like a security transaction.
- A life settlement may affect the insured's ability to obtain insurance in the future and the seller's eligibility for certain public assistance programs, such as Medicaid, and there may be tax consequences.
- ValMark and its registered representatives act as brokers on the transaction and may receive a fee from the purchaser.
- A life settlement transaction may require an extended period of time to complete. Due to complexity of the transaction, fees and costs incurred with the life settlement transaction may be substantially higher than other securities.
- Once the policy is transferred, the policy owner has no control over subsequent transfers.
- If you are an investor or a buyer of a life insurance policy then you should be aware that:
  - Investment in a life settlement is highly speculative.
  - Although a substantial profit may be realized, a substantial loss is also possible.
  - The death benefit may never be paid.
  - Additional funds may need to be invested to pay premiums if the insured lives substantially longer than expected.
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