

# BRIEFING PAPER



## LIFE SETTLEMENTS

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### AN ALTERNATIVE TO LAPSING OR SURRENDERING POLICIES

Low interest rates have led to soaring premiums for many older Universal Life policies. A life settlement may offer a financial alternative to lapsing or surrendering the policy.



**BUCKLEY**  
FINANCIAL

INSURING WEALTH FOR GENERATIONS



## ADDRESSING THE STING OF RISING UNIVERSAL LIFE COSTS

### WITH LIFE SETTLEMENTS

#### “Retirees Stung by Universal Life Costs”

This headline ran in the August 9, 2015 edition of *The Wall Street Journal*. In the article, writer Leslie Scism related several stories of retirees who recently saw their life insurance premiums jump as much as 1000%. For owners of Universal Life policies purchased in the 1980s, 1990s and early 2000s, significant premium spikes are not uncommon.

The article points out that during the decades of high interest rates, especially the 1980s, Universal Life policies accounted for more than 25% of all individual life-insurance sales. At a time when the 10-year Treasury yield peaked at 15%, policies were projected to earn sufficient interest to not only cover the future cost of insurance, but also enough to generate additional reserves of tax-deferred savings.

Fast forward to today. The 10-year Treasury is just off its mid-2012 low of 1.404%. Insurers have seen the yields in their investment portfolios steadily decline causing them to reduce interest payments to policyholders and raise the rates on the cost of insurance.

Some policyholders sought out professional advice early on to deal with the developing interest rate shortfalls, including swapping into different types of policies. Many, however, have been caught off guard, reacting, often-times too late, when the premium notice arrives alerting them to a giant leap in the amount of premium due.

#### Avoid Leaving Money on the Table

**The immediate reaction by many is to simply cancel the policy by surrendering it or allowing it to lapse. However, a portion of the face amounts of these policies may be recoverable through a life settlement. On the following pages are examples of how policyholders have been able to rescue a portion of their policies' face value by working with their Insurance Professional and the ValMark Life Settlements Team.**

#### How Did This Happen?

The recent spate of premium spikes in Universal Life policies is “one of the most damaging but least-understood ramifications of years of low interest rates,” according to Leslie Scism of *The Wall Street Journal*.

During decades of high interest rates, Universal Life Insurance was touted for its ability to combine tax-deferred savings with a death benefit.

Essentially, the policy works like this: The buyer deposits money into the policy. The insurer deducts for expenses, including the cost of the death benefit, and the rest of the money stays in the policy earning interest to help pay some, or all, of the future costs. The annual cost of the death benefit typically rises as the policyholder ages to reflect higher chances of death.

During the sales process, agents prepare “illustrations” to show how the savings build. But the 8%-10% rates highlighted by many agents in years past weren't guaranteed—which, as Ms. Scism points out, many buyers say they didn't fully understand.

Insurers say they had to reduce interest payments when yields in their own investment portfolios fell, citing that their sales materials disclosed that only a minimum rate—4% or 4.5% in many 1980s-era policies—would be guaranteed.

A further development, the decreased interest rates have caused some carriers to increase the cost of insurance on certain older blocks of policies. Policy holders who maintained their policies, even with decreasing interest rates, have been surprised to receive letters from their carriers informing them of increased costs of insurance and premium expense charges. These carriers include Banner/William Penn, Transamerica, AXA and finally, VOYA which passed along a 42% premium hike.



## ADDRESSING THE STING OF RISING UNIVERSAL LIFE COSTS WITH 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.

1. Client name has been changed to protect confidentiality.
2. The gross offer will be reduced by commissions and expenses related to the sale.
3. Life Insurance Settlement Association, *Before Your Client Lapses That Life Insurance Policy, Consider the Alternatives* - 2015

### THE SITUATION

Grace Cochran<sup>1</sup>, a 91-year-old widow, purchased a \$500,000 Universal Life policy in 1990 with an annual premium of \$9,000. Grace and her children were recently notified that they would need to pay an annual premium of \$60,103 in order to carry the policy to age 100 (it's maturity date) – or the policy would lapse within one year.

Grace's children were unable to afford the higher premiums and consulted a ValMark Advisor. The advisor recommended that the family consider a life settlement before allowing the policy to lapse. The life expectancy for Grace is 37-50 months.

### THE OUTCOME

ValMark's Life Settlements Team worked with multiple providers through the bidding process to negotiate a settlement offer resulting in a total gross offer of \$185,000 (before expenses and commissions).

### SUMMARY

POLICY TYPE	Universal Life
DEATH BENEFIT	\$500,000
INITIAL PREMIUM	\$9,000
INITIAL CREDITING RATE	9.35%
CURRENT CREDITING RATE	4.5% (guaranteed)
CURRENT PREMIUM	\$60,103
LIFE EXPECTANCY	37-50 months
LIFE SETTLEMENT GROSS OFFER	<b>\$185,000<sup>2</sup></b>

### THE TAKEAWAY

In a recent survey, 90% of seniors say they would have considered a life settlement if they knew that was an option, rather than letting their policy lapse<sup>3</sup>. Life insurance is no longer just security for the beneficiaries; it is a valuable asset that may have more value than its cash surrender value.



## ADDRESSING THE STING OF RISING UNIVERSAL LIFE COSTS WITH LIFE SETTLEMENTS



### THE SITUATION

Marshall Macy<sup>1</sup>, an 80-year-old retired architect, purchased a \$1.2 million Universal Life policy in 2004 with an annual premium of \$27,000. Marshall had stopped paying premiums in 2007 because his policy had been designed so that future premiums would be paid from interest earned on the policy.

Or so he thought. Fast forward 10 years. After a decade of low interest rates, Marshall received a notice from his carrier that his policy was going to lapse in 30-60 days. To bring his policy current and provide coverage to age 100, he would need to begin paying premiums of \$47,000.

Marshall consulted a ValMark Advisor who recommended that the family consider a life settlement before allowing the policy to lapse. The life expectancy for Marshall is 103-113 months.

### THE OUTCOME

ValMark's Life Settlements Team worked with multiple providers through the bidding process to negotiate a settlement offer resulting in a total gross offer of \$250,000 (before expenses and commissions).

### SUMMARY

POLICY TYPE	Universal Life
DEATH BENEFIT	\$1,200,000
INITIAL PREMIUM	\$27,000
CURRENT PREMIUM	\$47,000
INITIAL CREDITING RATE	5.75%
CURRENT CREDITING RATE	4.0% (guaranteed)
LIFE EXPECTANCY	103-113 months
LIFE SETTLEMENT GROSS OFFER	<b>\$250,000<sup>2</sup></b>

### THE TAKEAWAY

In a recent study, it was found that \$112 billion in life insurance policies on the lives of seniors lapse or are surrendered every year.<sup>3</sup> Life insurance is no longer just security for the beneficiaries; it is a valuable asset that may have more value than its cash surrender value.

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.

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3. Life Insurance Settlement Association, *Before Your Client Lapses That Life Insurance Policy, Consider the Alternatives* - 2015





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### THE SITUATION

Larry Randall<sup>1</sup>, an 88-year-old retired corporate executive, purchased a \$1.2 million Universal Life policy in 2002. The original planned premium after an initial deposit of \$180,000 was \$21,778 which he paid every year. His insurance company recently notified him that his annual premium would increase to \$85,139 – nearly four times the planned amount – in order to carry the policy to age 100 (it's maturity date) at the current guaranteed interest rate of 4%...

Larry was unwilling to pay the higher premium and consulted a ValMark Advisor. The advisor recommended that he consider a life settlement before allowing the policy to lapse. Larry's life expectancy is 36 months.

### THE OUTCOME

ValMark's Life Settlements Team worked with multiple providers through the bidding process to negotiate a settlement offer resulting in a total gross offer of \$725,000<sup>2</sup> (before expenses and commissions).

### SUMMARY

POLICY TYPE	Universal Life
DEATH BENEFIT	\$1,200,000
INITIAL PREMIUM	\$21,778
INITIAL CREDITING RATE	6.0%
CURRENT CREDITING RATE	4.0% (guaranteed)
CURRENT PREMIUM	\$85,139
LIFE EXPECTANCY	36 months
LIFE SETTLEMENT GROSS OFFER	<b>\$725,000<sup>2</sup></b>

### THE TAKEAWAY

Since January of 2014, The ValMark Life Settlement team has created over \$12.5MM in gross life settlement proceeds for ValMark clients. Over this same period of time the average life settlement has delivered nearly 8X the cash surrender value to seniors. In our opinion this is a favorable time to consider a life settlement as an alternative to lapsing or surrendering a policy.

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## 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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