

Options for Undesired Life Insurance Policies

A high level overview of potential disposition options for life insurance policies that are no longer desired by the policy owner. Additional information will be necessary to adequately explore the feasibility and desirability of any particular option. Consult your legal and/or tax advisor for application to your specific situation.

Keep	Restructure	Surrender	Life Settlement	Exchange Into New Life Policy	Exchange Into Annuity	Premium Refund
<ul style="list-style-type: none"> • Could be desirable for self supporting policies • Policy may have good economic value if held until death. 	<ul style="list-style-type: none"> • Mold to a new use or to make self supporting • Reduce death benefit to let grow or to allow for income from policy; • Reduce death benefit so policy is self supporting. 	<ul style="list-style-type: none"> • Get cash surrender value • Income tax due on gain. • If cost basis exceeds cash surrender value, lose unrecovered basis. 	<ul style="list-style-type: none"> • Usually requires health decline since policy issue • May get offer that exceeds cash surrender value 	<ul style="list-style-type: none"> • Alternative to Keep • Single premium guaranteed maximum death benefit structure • Single premium minimum death benefit structure for distributions 	<ul style="list-style-type: none"> • Option if unwilling to keep life policy in any fashion • Full cost basis transfers to annuity • On existing annuity, infusion of basis can help offset existing annuity gains 	<ul style="list-style-type: none"> • Wait to execute premium refund rider/feature • Only available on a few policies • Most available in policy years 15, 20, 25. • May be partial or full refund.

Considerations

<ul style="list-style-type: none"> • No underwriting • Still have the other options available in the future 	<ul style="list-style-type: none"> • No underwriting • May require carrier approval • Could incur surrender charges on face reduction • Watch for MEC especially on survivor policies 	<ul style="list-style-type: none"> • No underwriting • May incur surrender charges • MEC and/or policy loans could trigger additional tax liability 	<ul style="list-style-type: none"> • Requires underwriting • Only certain policies will be desirable • Carrier ratings may impact availability 	<ul style="list-style-type: none"> • Requires underwriting • May incur surrender charges • Watch for policy loans and/or MEC on existing policy 	<ul style="list-style-type: none"> • No underwriting • May incur surrender charges • Surrender value must be greater than zero 	<ul style="list-style-type: none"> • No underwriting • Must sustain policy until refund is executed • Must remember to execute within allowed window several years in the future
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Factors Adding Complexity

Trust Owned	Business Owned	Policy Loans	Modified Endowment Contract	Premium Financed Policy	Collateral Assignments
<ul style="list-style-type: none"> • Some options require grantor insurability and/or cooperation • May need blessing of beneficiaries. • Income tax liability pass through if grantor trust 	<ul style="list-style-type: none"> • Employees may need or want policy but cost to acquire may be prohibitive 	<ul style="list-style-type: none"> • Could generate tax liability on surrender or exchange • May restrict exchange or settlement options. 	<ul style="list-style-type: none"> • Could trigger additional tax on surrender or exchange • Two year lookback on distributions • Different rules for second to die 	<ul style="list-style-type: none"> • Lender has to approve any action • Could create gift tax • Limits exchange options 	<ul style="list-style-type: none"> • Options may require approval of holder of assignment

Option Descriptions

Keep – Maintaining the current life insurance policy indefinitely without any modifications.

Restructure – Maintaining the current life insurance policy with one or more modifications to the elements of the policy such as premium paid or death benefit.

Surrender – Terminating the current life insurance policy in order to receive any net cash surrender value from the carrier. The death benefit protection will cease at surrender.

Life Settlement – A sale of the existing life insurance policy on the secondary market to a third party for fair market value in hopes of receiving a lump sum settlement that is higher than the policy's cash surrender value and less than policy death benefit. Requires third party underwriting approval.

Exchange Into New Life – The process of transferring the current policy's cash surrender value into a new life insurance policy with a different carrier that provides more desirable premium levels, features, and/or benefits. The current policy will cease when the exchange is executed. Requires carrier underwriting approval and must meet certain administrative guidelines.

Exchange Into Annuity – The process of transferring the current policy's cash surrender value into a new or existing deferred annuity policy in order to establish a new annuity or enhance an existing annuity in some way. The current policy will cease when the exchange is executed. Must meet certain administrative guidelines.

Premium Refund – If the policy has a premium refund rider or feature, executing the rider so that a full or partial refund of premiums is received and the policy ceases. This is an uncommon feature that usually only allows execution at specified dates in the future.

Complexity Descriptions

Trust Owned – A life insurance policy owned by a trust, often an irrevocable life insurance trust.

Business Owned – A life insurance policy owned by a business entity.

Policy Loans – A life insurance policy under which some portion of the cash value has been loaned to the policy owner under the terms of the policy contract.

Modified Endowment Contract – Also known as a "MEC", this is a policy that meets certain rules under the Technical and Miscellaneous Revenue Act of 1988.

Premium Financed Policy – An arrangement where a third party lender loans life insurance premiums to the policy owner. The lender generally has rights to specified amounts of the policy cash surrender value and death benefit.

Collateral Assignment – A document on file with the life insurance carrier which assigns specified rights and benefits under the life insurance policy to a third party. The third party's rights generally may not be revoked without consent.

Disclosures:

All investing involves risk, including the possible loss of principal. Riders and features in some contracts are available for an additional fee.

Any tax advice contained herein is of a general nature and individuals are advised to discuss their personal tax situation and implications with a qualified tax professional.

In a life settlement the current policy owner transfers the ownership and beneficiary designation to a third party, who will receive the death proceeds upon the death of the insured. When an individual decides to sell their policy in a life settlement, they must provide complete access to their medical history and other personal information. This information is requested during the initial application and there may be an ongoing obligation to disclose similar and additional information at a later date. There may be tax consequences associated with life settlements. ValMark Securities supervises a life settlement as a securities transaction.

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