

# INSURANCE REVIEW UNCOVERS PENDING POLICY LAPSE

RECOMMENDED LIFE SETTLEMENT SOLUTION PRODUCES 6X THE POLICY'S CASH SURRENDER VALUE



## THE SITUATION

Josephine Woods<sup>1</sup> purchased a \$500,000 universal life insurance policy in 2000 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 by Valmark's Policy Management Company. The detailed analysis discovered that the duration of Josephine's guaranteed coverage was reduced from age 108 to age 85. It was also determined that she had a 90% chance of outliving her projected coverage if she didn't increase premium payments substantially. The review also found that the policy was no longer needed for survivor needs, since Josephine's husband was deceased.



## SUMMARY

DEATH BENEFIT

GUARANTEED COVERAGE LENGTH

PREMIUM

PREMIUM REQUIRED TO EXTEND COVERAGE

## ORIGINAL DESIGN

\$500,000

Age 108

\$0 (10-PAY)

## CURRENT PERFORMANCE

\$500,000 (Not Guaranteed)

Age 85

Premium Not Paid As Planned

\$28,674 Per Year Through Age 100



## FOUR OPTIONS

Based on the Policy Management Company's findings and recommendations, the Valmark Advisor provided Josephine and her children (who were trustees of the insurance trust) with four options: surrender the policy for a cash surrender value of \$25,000, reduce the death benefit, begin paying increased premiums, or the fourth option—sell the policy. Josephine wanted to see her children enjoy the money now and decided to pursue selling the policy through a life settlement.



## THE OUTCOME

The Policy Management Company worked with Valmark's Life Settlement Team to complete a Policy Appraisal Report which determined that Josephine was a candidate for a life settlement. Her projected life expectancy was 7 years. The 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

DEATH BENEFIT

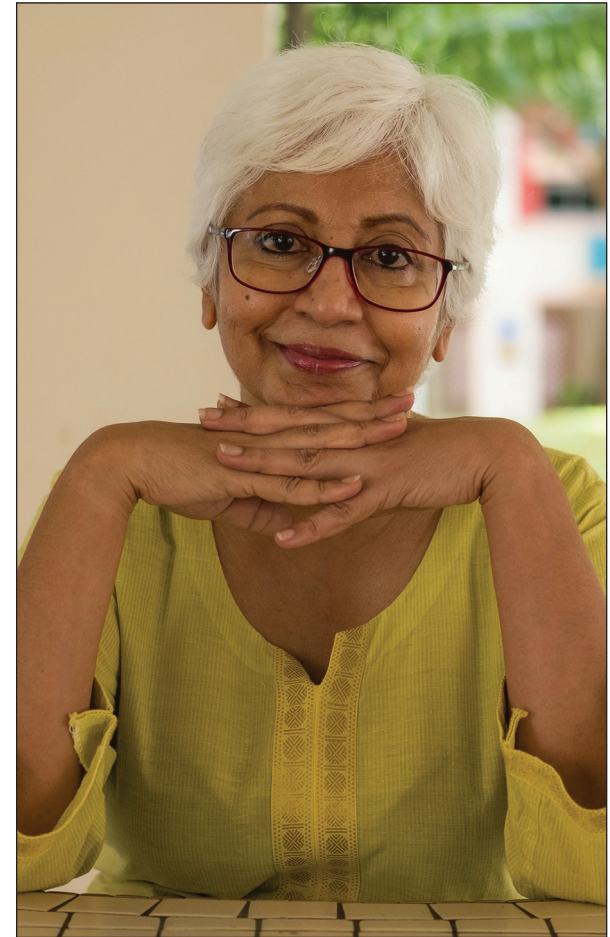
\$500,000

CASH SURRENDER VALUE

\$25,000

LIFE SETTLEMENT OFFER

**\$155,000 Gross<sup>2</sup>**



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<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. 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.

# LIFE SETTLEMENT DISCLOSURE

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- 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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