



<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> Scott Hawkins, VP Conning & Co., Life Insurance Settlement Association 22<sup>nd</sup> Annual Fall conference. | 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.

## AUCTION PROCESS INCREASES SETTLEMENT BID BY 226%

### UTILIZES UNIQUE FORMAL, WRITTEN BID PROCESS

#### THE SITUATION

Doug Fox, a former college athlete and owner of a sports supply business, purchased a \$1.5 million universal life insurance policy in 2002 for estate planning purposes. Doug, now age 64, was referred by his attorney to a ValMark Advisor for a comprehensive life insurance review. When the policy was purchased, the planned premium was \$16,000 per year. An increased premium of \$82,000 per year was now needed to maintain this policy to age 100. Doug no longer needed the policy for estate planning purposes and had serious health impairments, reducing his life expectancy to between 28 and 94 months. A life settlement was recommended by the Valmark Advisor.

#### BID PROCESS CREATES UNEXPECTED VALUE

Our unique bidding process allowed potential providers to submit their initial blind bid which ranged from \$100,000 to \$250,000. Once the initial offers were submitted, the ValMark Life Settlement Team began its auction process. The auction process ran for 28 rounds resulting in a final high offer of \$815,000 gross <sup>2</sup>. Had Doug surrendered this policy he would have received \$500.

#### THE OUTCOME

Initially, Doug was prepared to surrender the policy for \$500. At the outset of the bidding process, he was willing to accept the initial low offer of \$250,000. By going a step further with our auction process, Doug ultimately was able to receive the true market value for the sale of his policy. The result of working with multiple providers was a final offer that was 226% higher than the initial offer on this policy (before commissions and expenses<sup>2</sup>).

#### SUMMARY

POLICY TYPE	Universal Life
DEATH BENEFIT	\$1,500,000
CASH SURRENDER VALUE	\$548
ANNUAL PREMIUMS	\$81,948 to age 100
LIFE SETTLEMENT OFFER	<b>\$815,000 Gross<sup>2</sup></b>

#### THE TAKEAWAY

In 2015, investors purchased \$1.7 billion of U.S. life insurance face value.<sup>3</sup> This is a positive indicator for the future of the life settlement industry. It is the responsibility of the advisor to educate clients regarding the life settlement option. Consider a life settlement as an alternative to lapsing or surrendering the policy.

## AUCTION PROCESS INCREASES SETTLEMENT BID BY 226%

HOW THE INITIAL OFFER OF \$100,000–\$250,000 JUMPED TO A FINAL GROSS OFFER OF \$815,000

### OUR METHODOLOGY

Valmark has a unique formal, written bid process that forces all providers to play on the same level playing field and awards cases strictly on the merit of the provider making the higher offer. While it is impossible to predict exactly which providers will have the strongest money at any given point in time, a consistent and written process finds this money for the client. This process helps to assure clients that they are receiving fair market value for the sale of their policy.

### CASE STUDY

In the case of Doug Fox<sup>1</sup>, the auction went for 28 rounds with a beginning high bid of \$250,000 and a resulting bid of \$815,000. The initial offer from the buyer increased 226%. The low initial bid on this case was \$100,000. The final offer resulted in a 715% increase from the lowest initial bid on this policy. This result underscores the importance of a formal written bid process among multiple, institutional fund sources in order for clients to be confident they are receiving fair market value for the sale of their policies.

### OFFERS | \*IN THOUSANDS

Provider	Initial Offer	Round 1	Round 2	Round 3	Round 4	Round 5	Round 6	Round 7	Round 8	Round 9	Round 10	Round 11	Round 12	Round 13	Round 14
Company 1	\$130	\$260	\$330	\$330	\$360	\$370	\$385	\$405	\$435	\$435					
Company 2	\$250	\$250	\$330	\$330	\$360	\$375	\$375	\$425	\$425	\$475	\$475	\$535	\$535	\$575	\$575
Company 3	\$200	\$260	\$330	\$330					\$435	\$435					
Company 4	\$100	\$260													
Company 5		\$320	\$320	\$350	\$350	\$370	\$395	\$395	\$435	\$435	\$485	\$485	\$565	\$565	\$600
8 Other Companies	NO OFFER														

Provider	Round 15	Round 16	Round 17	Round 18	Round 19	Round 20	Round 21	Round 22	Round 23	Round 24	Round 25	Round 26	Round 27	Round 28	
Company 1															
Company 2	\$610	\$610	\$675	\$675	\$695	\$695	\$745	\$745	\$765	\$765	\$785	\$785	\$805	\$815	
Company 3															
Company 4															
Company 5	\$600	\$640	\$640	\$685	\$685	\$705	\$705	\$755	\$755	\$775	\$775	\$795	\$795		

### RECORD OF PAST RESULTS

Using our unique formal written bid process, over the last two years at Valmark, the historical average percentage bid increase (from the initial low bid to the final offer) has been 187%. The average increase of the winner's bid (from their initial bid to the final offer) has been 50%.

## 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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