

# ADVISOR BRIEFING



## LIFE SETTLEMENTS

### 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.

#### OUR POLICY APPRAISAL REPORT

Can help you determine whether your client is a viable candidate for a life settlement solution.



**STONE POINT FINANCIAL**  
— G R O U P —

312.445.9440

TOM FAY, CLU®, ChFC®

TFAY@STONEPOINTFG.COM

WWW.STONEPOINTFG.COM



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

### “Retirees Stung by Universal Life Costs”

This headline ran in a recent 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 amount of these policies may be recoverable through a life settlement.**

**As a licensed life settlement agent, Stone Point Financial Group works with you and your clients to determine eligibility; and if so, to rescue a portion of their policies' face value using our Policy Appraisal Report and subsequent life settlement negotiations by our 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.



## 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 to a life settlement.
- When an individual decides to sell their policy, they must provide complete access to their medical history, and other personal information, that may affect their 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 to the buyer or servicing agent at a later date.
- 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.
- Individuals should discuss the taxation of the proceeds received from a life settlement with their tax advisor.
- 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.
- Valmark and its registered representatives act as brokers on the transaction and may receive a fee from the purchaser.
- Valmark Securities supervises all life settlements like a security transaction.
- Securities offered through Valmark Securities, Inc. Member FINRA/SIPC. Investment advisory services offered through Valmark Advisers, Inc., a SEC Registered Investment Advisor. 130 Springside Dr., Akron, Ohio 44333. (800) 765-5201. Stone Point Financial Group is a separate entity from Valmark Securities, Inc. and Valmark Advisers, Inc.