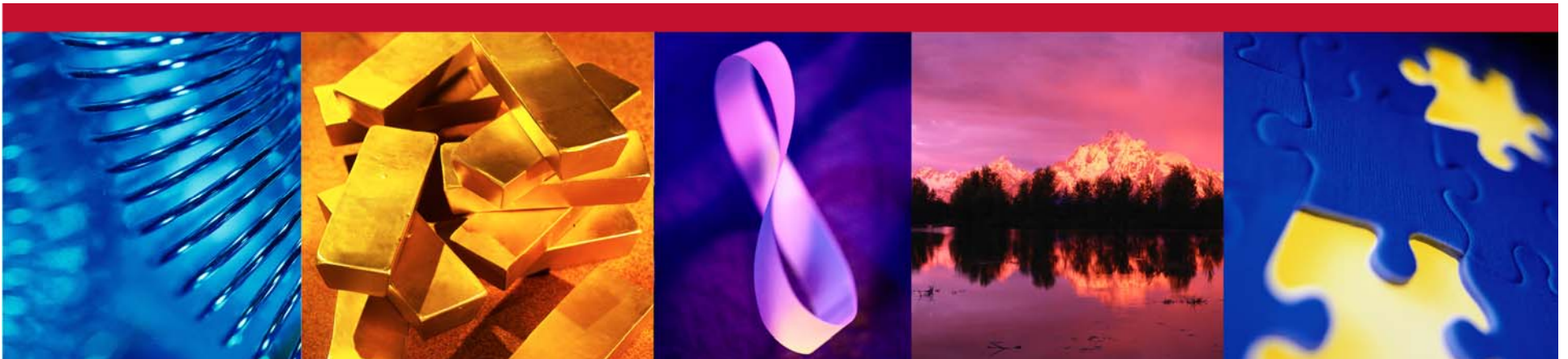




In the Secondary Market, We're First.™

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Webinar Instructions

- Dial in to 1-800-839-9416; access code 8334152. Phones will be muted.
- If you have questions during the presentation, please use the “chat” function located at the top of your web classroom screen.
- Disable pop-up blockers on your web browser.
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- **Please stand by, the webinar will begin at 10:30 a.m. PST**

LSAM Events & Resources

- June 1 – Life Settlements Fundamentals
- June 4 – Life Settlements Advanced Strategies & Case Studies
- June 7-10 – LSS at the MDRT Convention
- June 11 – Investors in Life Settlements –Part I
- June 16 - Investors in Life Settlements –Part II
- June 18 – How changes in past year will impact market going forward
- June 23 - Investors in Life Settlements –Part III
- June 25 – Advanced Strategies: Market and Regulatory Trends
- June 30 – Life Settlements Fundamentals (repeat)

- Continuing Education course on life settlements (www.lss.webce.com) available in all 50 states (2-8 CE Credits)

- Downloadable resources and event signup at: www.lifesettlementawarenessmonth.com

What We'll Cover

- The Basics of Life Settlements
- Benefits & Planning Options
- Market Participants & Entry
- Settlement Transaction
- Pricing Offers & Case Studies
- Regulatory Trends

What is a Life Settlement?

- The sale of an existing life insurance policy to a third party investor for an amount that typically exceeds cash surrender value (CSV) but is less than the policy face value
- Seller receives a lump sum payment and relinquishes all ownership rights of, and beneficial interest in the policy
- Investor pays premiums and keeps policy in force
- Upon death of insured, investor receives benefit
- An exit strategy for financial professionals and clients for un-necessary or under-performing life insurance contracts

Consider Life Settlements When:

- Financial plans change for client (current economy)
- Reason insurance was purchased no longer applies
- Dependents change (divorce/death), are grown, or do not need coverage
- Under-performing policies & escalating premiums
- Clients have a current need for liquidity
- Client's insurance needs require newer, more appropriate coverage
- Business changes owners or leadership/key-executives
- Client needs exit strategy for advanced planning insurance programs
- Tool to fulfill charitable gifting needs
- Change in value of estate and/or estate tax laws

A Vital Planning Option

- Significant industry growth
 - \$12 -\$15 billion industry in recent years
 - Industry potential of \$160 billion in face value (FV) (Bernstein Research)
- Settlements typically yield 3-4 times more than CSV
- “Market value” of life insurance provides a revenue source unknown to many professionals/clients
- Eligible policy types are UL, single life and survivorship, whole life; even term policies (that have no CSV) are eligible
- Industry has paid \$ billions more than CSV to policyholders
- Flood of financial professionals entering the market
- Increasing consumer and advisor awareness
- If you don't offer life settlements, your competition will

Benefits to Clients & Producers

- Provides clients with an exit strategy option
- Competitive marketplace (market value)
- Provides added value to life insurance policy
- Added service/reason to meet with clients
- Settlement proceeds provide added resources for clients to update financial plans
- Cross-selling opportunities
- Additional revenue stream for producer/firm

The Players

- Transaction:
- Clients (sellers of policies) – and their advisors
- Agents – represent clients
- Brokers/Intermediaries – represent clients
- Providers/Funders – provide & represent capital sources

Other Players:

- Life Expectancy Providers
- Trustees

The Settlement Provider

- Represents capital source; provides direct access to funding
- Evaluates and issues pricing offer on policy
- Receives policies from agents, insurance GA's, broker-dealers, settlement brokers and/or other intermediaries to analyze
- Maintains transacted policies after settlement (keeps policies in force on behalf of investors)
- Provides training and support services to distribution
- Extensive national licensing

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Life

The Broker/Intermediary

- Represents the client and producer
- Establishes and maintains relationships with a number of providers to obtain competitive offers
- Has infrastructure in place to support case compilation and transaction process
- Settlement broker licensing
- Supports document procurement, including illustrations, medical & life expectancy reports
- Provides support and training services

Considerations for Entering the Industry

- Education & licensing requirements
- Assess capabilities, existing clientele, potential prospect sources and determine if you are capable of working directly with providers or if you need to work through an intermediary/broker and are willing to pay that cost
- Working with providers requires more work & infrastructure and yields higher settlement offers for client & agent
- Working through brokers requires less work & infrastructure and yields lower settlement offers for client & agent

Decision Considerations

Provider

- Licensing (Florida)
- Capital sources
- Track record of closed cases (at least \$1B FV)
- In house legal counsel
- History in industry
- Reputation/Referrals
- Closing processes
- Member of LISA
- History of regulatory or customer complaints
- Resources

Broker

- Established relationships with a number of providers with institutional funding
- Track record of closed cases
- Compensation disclosure
- Proper licensing in your state(s)
- Reputation/Referrals
- History of regulatory or customer complaints
- Member of LISA
- Resources available for producers

Typical Characteristics

- Financial situation/needs change of client (previously outlined)
- 65 years and older; avg. mid-to-late 70's
- Life expectancy greater than 2 years to approx. 17 years; average is about 10 years
 - No terminal illness or chronic/catastrophic conditions
- Policy types:
 - Universal life policies are most common
 - Other policies transacted include Survivorship, Term and Whole Life
 - Variable contracts are more limited and require b/d
- Carrier has an A-rating or better
- Policy face value minimum has historically been \$250,000 but more small policy capabilities are available (\$50,000)
- Policy is beyond contestability period

The Transaction

- Compile settlement application package
 - Inforce Illustration, Medical records, Life expectancy report
- Submit case for evaluation (through broker or to at least 3-5 providers)
- Obtain offers; negotiation; acceptance of best offer or rejection
- Completion of transfer of ownership and authorization contracts
- Verification of coverage
- Change of ownership
- Escrow – seller payment and transfer of policy to investor
- Compensation to broker/intermediary upon expiration of rescission period

Pricing a Policy

- Face value – revenue for the investor
- Life expectancy – duration until revenue
- Premiums/COI – costs during duration
- IRR – required rate of return
- Settlement Offer – based on above elements

Pricing Changes

- Capital shortage
- Release of updated mortality tables 3/08
 - Updated results
 - More detailed age breakdowns
 - Analysis of underwritten vs. non
- Significant elongation of life expectancies by LE providers
- Increased IRR's to account for risk

Case Study

Client situation:

- 75 year-old male
- \$2,000,000 Universal Life Policy purchased 5 years ago
- Cash Surrender Value of \$45,000
- Upcoming Annual Premium \$60,000
- Estate value/tax changes reduced need for coverage. Client does not wish to pay escalating premium any longer.

The Settlement Process:

- Initial offers received from 4 providers: \$250,000 to \$300,000
- Subsequent negotiations result in a final high offer of \$350,000
- Client acceptance, contracts executed; escrow; ownership transfer at carrier
- Funds wired to seller = \$300,000 (\$255,000 above CSV). Client uses proceeds for retirement funding, smaller insurance policy.
- Upon the expiration of statutory contract rescission periods (3-15 days), compensation is wired to the agent/broker for \$50,000

Case Study

Client situation:

- 78 year-old female
- \$1,000,000 Level Term Policy; conversion option (to UL)
- No Cash Surrender Value (term insurance)
- Upcoming Annual Premium \$10,000
- Insurance no longer needed for debt coverage (mortgage). Client wished to reallocate funds away from premiums for un-needed policy

The Settlement Process:

- Case file compiled including illustration for post-conversion UL policy
- Initial offers received = \$130,000 to \$180,000
- Subsequent negotiations result in a final high offer of \$200,000
- Client accepts, contracts executed; escrow; ownership transfer
- Funds wired to seller = \$175,000 (\$175,000 above CSV). Client uses proceeds for retirement funding, smaller insurance policy.
- Upon the expiration of statutory contract rescission periods (3-15 days), compensation is wired to the agent/broker for \$25,000

Regulations

- Understand your state's regulations
- Evolving settlement regulation landscape (NAIC v. NCOIL)
- Many states currently reviewing and considering settlement regulations (including CA & NY)
- What are STOLI transactions?
 - Investor-owned v. investor-originated
- IRS Revenue Rulings*

About Life Settlement Solutions

- One of the oldest and largest life settlement providers
- In excess of \$2 billion in face value closed to date
- Solely institutional capital (customer protection)
- Industry-renowned capabilities and reputation
- Member of Life Insurance Settlement Association
- AA+ rating from Scope Agency
- Expert management and employee teams
- Founder and presenter of Life Settlement Awareness Month (LSAM)®
- Developer of one of the few continuing education courses on life settlements for credit toward life licensing

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Resources

www.lifesettlementawarenessmonth.com

www.lss.webce.com

www.lifesettlementsmarketwatch.com

www.lss-corp.com

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