

Life Settlements: A Value-Creating Opportunity for Certain Clients

The life settlement market is very strong and, in certain situations, **a life settlement can create five to seven figures of value that a client would never expect!** A life settlement should be considered as an alternative to policy surrender to maximize the value for your client. **This situation can include term life insurance.** There is no cost or obligation to your client for our assessment regarding the salability of a policy. Your client will know their options and can make their best decision.

A life settlement is defined as the sale of an unneeded or unaffordable life insurance policy on the secondary market to a third party for a lump sum cash settlement. **As a general rule, the insured in a life settlement should have a life expectancy of 15 years or less.** The primary funders of life settlements are global pension funds who consider a portfolio of policies with over a billion dollars of death benefit as an attractive alternative to bonds, especially at current very low interest rates.

Our History and Philosophy on Life Settlements: We have been very active in the life settlement market, with our broker dealer Valmark Securities, Inc., for about 15 years. Done correctly, a life settlement is a very professional and transparent transaction that includes full written compensation disclosure. We consider life settlements as an option to help clients maximize the value of their life insurance portfolio. Depending upon the insured's life expectancy and the cost to continue the policy, a salable policy may sell for 5-50% of the death benefit. Very occasionally, the sale value can be greater than 50% of the death benefit.

Our Recent Examples:

Client #1 – Age 64

*Our client had a term life insurance policy with a significantly increasing premium that he could no longer afford. He also had serious health issues and a limited life expectancy. **Our client was able to sell his term insurance policy for nearly 20% of the death benefit, net of costs, when the policy's cash surrender value was zero!***

Client #2 – Age 88

*Our family client had a no longer needed estate planning universal life policy insuring their mother. If mom lives to age 100, she would outlive the multimillion dollar death benefit. The existing premiums were higher than the family wanted to continue to pay. Furthermore, the insurance company could increase mortality charges in the policy (an increasingly common occurrence with some companies), which could make future premiums much higher. **The family sold the policy for just over 40% of the death benefit, net of costs, to eliminate all of these risks. The settlement cash is available to mom, if needed for her living expenses, and the remainder will be an inheritance for her children.***

The Zimdars Company, Inc.

406 Science Drive
Suite 206
Madison, WI 53711-1071

608-231-2700
800-448-2927
Fax: 608-231-6837
info@zimdars.com
zimdars.com



Our Unique Perspective:

According to the agent look-up function on the website for the Wisconsin Commissioner of Insurance, as of September 1, 2020, **we are one of only 30 life settlement brokers licensed in Wisconsin.** Less than half of these Wisconsin-licensed life settlement brokers are Wisconsin residents.

Our broker dealer, Valmark Securities, supervises life settlements like a securities transaction. This may aid in more thorough due diligence, best offer requirements, and proper liability protection.

Furthermore, our compensation is fully disclosed in advance. Our more detailed Life Settlement Checklist, included with this white paper, includes our alternative compensation formulas. **We are compensated based upon the lowest cost formula, which maximizes the value for your client.**

Beware: There are at least two common pitfalls in life settlements.

1. **Work with a life settlement broker who will represent your client as the seller.**
There are advertisements for organizations that will buy life insurance policies. What is not said is that these buyers represent the funders. The goal of these buyers is to purchase the policy at a deeply discounted value.

In our Example #1, the final purchase price was 250% of the starting offer because of almost 20 rounds of auction bidding. The auction process is a critical requirement, whenever possible, to maximize the value to the client and is explained in Section II. C. of our Life Settlement Checklist.

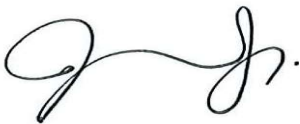
2. **Require that the life settlement broker disclose their fees and commissions in advance, in writing.** Clients and their advisors likely do not know what to expect with life settlement compensation and have no frame of reference.

As an example, when reviewing a life settlement transaction for an advisor after the fact, we determined that their life settlement broker actually received more money than the client!

To Do:

1. Do you have clients age 75 or older with any unneeded or unaffordable business or estate planning life insurance, with a policy death benefit of \$250,000 or higher, that they plan to surrender?
2. Do you have clients of any age with seriously impaired health (an estimated life expectancy of 15 years or less) who plan to surrender a life insurance policy, with a death benefit of \$250,000 or higher, because they are unwilling to pay future premiums?

Contact us! If we can answer your life settlement questions, or be a life settlement broker resource to represent your client's best interests, please call 800/448-2927 or email us at info@zimdars.com. We look forward to hearing from you.



John C. Zimdars, Jr., CLU, ChFC, President

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, the buyer has a financial interest in the seller's death. 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. A life settlement may affect 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 with their tax advisor. Valmark Securities, Inc. supervises all life settlements as a security transaction. Valmark Securities, Inc. and its registered representatives act as brokers on the transaction and may receive a fee from the purchaser.

THE EXAMPLES GIVEN ARE HYPOTHETICAL AND FOR ILLUSTRATIVE PURPOSES ONLY.
SECURITIES OFFERED THROUGH VALMARK SECURITIES, INC. MEMBER FINRA/SIPC.
CORPORATE OFFICES: 130 SPRINGSIDE DR, AKRON, OH 44333-2431, (800)765-5201
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