Life Settlements Are a Force for Good

In free market societies, such as the United States, any time that consumers are offered more options, it is good for consumers.

The secondary market for life insurance policies is exactly that: it is one additional option for policyholders to pursue when they realize that the policy they currently hold is no longer wanted or needed.

Many sellers of policies are high net worth individuals that are surrounded by qualified advisors such as lawyers, CPAs, or financial planners that assist them during the sale of their policy. They are generally sophisticated people that are well qualified to determine whether it is a wise business decision to sell their policy. Many of the policies being offered to Life Partners are in the vicinity of $5 million in face value and can be as much as $20 million. Premiums are typically 3-5% of the face value of the policy or higher. Therefore it is easy to see why an individual would want to stop paying the premiums if the business need has gone away. Premiums may cost the insured hundreds of thousands of dollars per year.

Many of the policies that Life Partners purchases are "special purpose" policies such as estate planning policies, key man policies, etc. Once that purpose goes away (such as the estate becoming more liquid, key man is retiring), the policies frequently lapse or are cashed in for pennies on the dollar from the insurance company. In fact, according to a December 2006 article in the New York Times, insurance companies in 2005 reduced their financial exposure by $1.1 trillion when 19.8 million policy holders stopped paying their premiums.

By having the additional option to sell their policy to a firm such as Life Partners, the policyholder is gaining full market value for his policy and can turn a *death benefit* into a *living benefit*. The bidding for policies is competitive, so sellers typically have more than one bid and have the chance to evaluate competing offers, and then accept the best offer they have received.

In light of the massive dislocations our capital markets have recently experienced, many seniors have a great need for the liquidity that can be provided through the sale of their life insurance policy. Increasingly, Life Partners is purchasing policies from sellers that desperately need the cash in order to meet their day-to-day cost of living, with their estates having suffered tremendous financial loss. For some, this is the asset that is easiest to part with, and provides a windfall of cash that was entirely unanticipated.

Finally, Life Partners does not aggressively solicit and attempt to persuade policy holders to sell. Rather, brokers nationwide bring policies to Life Partners from policyholders that have already decided they want to sell. Again, once the policyholder has decided they no longer need the policy, Life Partners provides an additional option for the seller. In any given month, Life Partners typically receives for review $3.5 billion in policy face value.

Typically, the heirs and beneficiaries are part of the transaction, and are aware that the policy is being sold. Two right of rescission periods are part and parcel of every transaction so that by the time the transaction is funded, every opportunity has been given to the seller to back out of the transaction.

In a Wharton Business School study, many reasons were listed as to why a policyholder may decide to sell their policy. Those reasons include:

- The premiums are no longer affordable.
- The beneficiary for whom the policy was purchased is now deceased or no longer has need for the policy.
- A key-man policy, designed to protect a company from the financial loss of a key executive, is no longer necessary, either because the business has folded or the individual is no longer integral to the business' success.
- The policyholder owns multiple life insurance policies and wishes to eliminate one.
- The policyholder wishes to replace an individual policy with a survivorship policy, a long-term care insurance policy, or funds for long-term care.
- The policyholder requires funds to pay for medical expenses or for new experimental treatments for himself or someone close to him.
- The sale of the policy would allow the policyholder to maintain a desired standard of living and live out his final years with dignity.
- The policyholder wishes to remove the policy from a trust or estate.
- A reduction in the value of the policyholder's estate reduces the tax liability for which the policy was decided to provide.
- An increase in the liquidity of the estate eliminates the need for the policy.

Here is what various media and financial institutions have said about the life settlement option for policy sellers:

MorningStar:

> *"We believe the development of the secondary market for life insurance helps consumers by providing additional alternatives." (June 16, 2006)*

The Economist

> *"The secondary market for life insurance policies is good for consumers." (May 17, 2003)*

Franklin Templeton

> *"The fundamental reason for the rapid growth of the life settlements market is consumer value." (November 2006)*

So, in summary, life settlements are a force for good, that turn a death benefit into a living benefit for the insured and their families. Life Partners, Inc. is pleased to be able to offer this alternative to our nation's valued senior citizens.