

LIFE SETTLEMENT FACT SHEET

1. Each year for the next 10 years, \$200 billion of life insurance will be lapsed or surrendered that could qualify for a life settlement.¹
2. \$85 billion of life insurance policies with face amounts between \$100,000 and \$1,000,000 that would have qualified for a life settlement are terminated each year.
3. 88% of all Universal Life policies that are issued are lapsed or surrendered without payment of a death benefit because policyholders no longer want, need or can afford their policies.²
4. 75% of seniors (age 65 or older) will terminate their Universal Life and Term Life Policies.
5. Life Settlements pay policyowners an average of four or more times the policy's cash surrender value.³
6. 90% of Americans live in the 43 states with life settlement laws that provide substantial consumer protections in the sale of a policy.
7. Nine states require disclosure of alternatives to the lapse or surrender of a life insurance policy, which includes life settlements.
8. The National Association of Insurance Commissioners (NAIC) reports only two consumer complaints were received by state insurance regulations throughout the United States since the start of 2015.⁴
9. The NAIC has endorsed life settlements as a way for seniors to finance their long-term care costs.⁵
10. Federal and State “best interest” and suitability standards are being adopted, which will result in insurance and financial professionals recommending more life settlements

¹ Life Settlements - Continued Growth, Positive Outlook (2018), Conning, p. 43.

² Lapse-Based Insurance, Daniel Gottlieb, Olin Business School, Washington University and Kent Smetters, Wharton School, University of Pennsylvania, June 6, 2016.

³ Empirical Investigation of Life Settlements: The Secondary Market for Life Insurance Policies, Afonso V. Januario, Narayan Y. Naik, London Business School (2013).

⁴ NAIC Consumer Information Source, Reasons Why Closed Confirmed Consumer Complaints Were Reported As of July 8, 2019.

⁵ American Council of Life Insurers Fact Book (2017).

LIFE SETTLEMENT REGULATION

Life Settlements are a Property Right

Life settlements are the exercise of an established property right to sell a life insurance policy. Over a century ago, the US Supreme Court established that life insurance policies enjoy the “ordinary characteristics of property,” that includes the right to sell a policy in an open market. As Justice Oliver Wendell Holmes explained for a unanimous court: “To deny the right to sell except to persons having such an [insurable] interest is to diminish appreciably the value of the contract in the owner’s hands.” *Grigsby v. Russell*, 222 U.S. 149 (1911).

Consumer Protection for Seniors

The National Association of Insurance Commissioners reports that since the start of 2015, only two consumer complaints have been reported to insurance regulators throughout the United States. In addition, there is no regulatory enforcement or litigation of note involving policyowners who have entered into life settlements. This is due, in large part, to the comprehensive laws and regulations that protect seniors who sell their life insurance policies.

- State insurance departments require extensive licensing, reporting and accountability of life settlement companies.
- Detailed consumer disclosures are required across the country. They cover both life settlements in general and individuals’ transactions in particular.
- All individuals selling their own life insurance policies must obtain a competency certification from their own physicians before entering into a life settlement.
- All life settlement proceeds due to the seller are held with a federally chartered bank during the period between contract execution and confirmation of the change in policy ownership.
- Lighthouse Life requires that policy beneficiaries acknowledge the transaction, even though this is not a statutory requirement.

Consumer Disclosures and Transparency

Increasingly, states have been promoting laws and rules that require policyowners be told about alternatives to the lapse or surrender of their policies, including life settlements. In 2016, the National Council of Insurance Legislators (NCOIL) re-adopted the Life Insurance Consumer Disclosure Model Act, which mandates that insurance companies offer alternatives to the lapse or surrender of a life insurance policy, including life settlements. Nine states to date have enacted some form of disclosure requirement.

The level of transparency in life settlement transactions has also had a significant, positive impact in the market. Most states require disclosure of compensation paid to settlement brokers. Lighthouse Life embraces even greater transparency by disclosing all compensation and referral fees that have been paid by Lighthouse Life.

Senior Healthcare, Long-Term Care and Life Settlements

In 2017, the National Association of Insurance Commissioners (NAIC) endorsed life settlements as a way for seniors to finance their long-term care costs. The NAIC cited several national studies that life settlement proceeds are “generally four or more times greater than if [the policyowner] lapsed or surrendered their policy.”

Protection at the state level is also evolving. In 2013 Texas became the first state to pass a “Medicaid Life Settlements” law that promotes life settlements as an alternative to Medicaid for financing long-term care costs. To date, eight states have introduced and/or acted on similar legislation that helps those in need of long-term care. It would also save tens of millions of dollars annually in Medicaid spending.

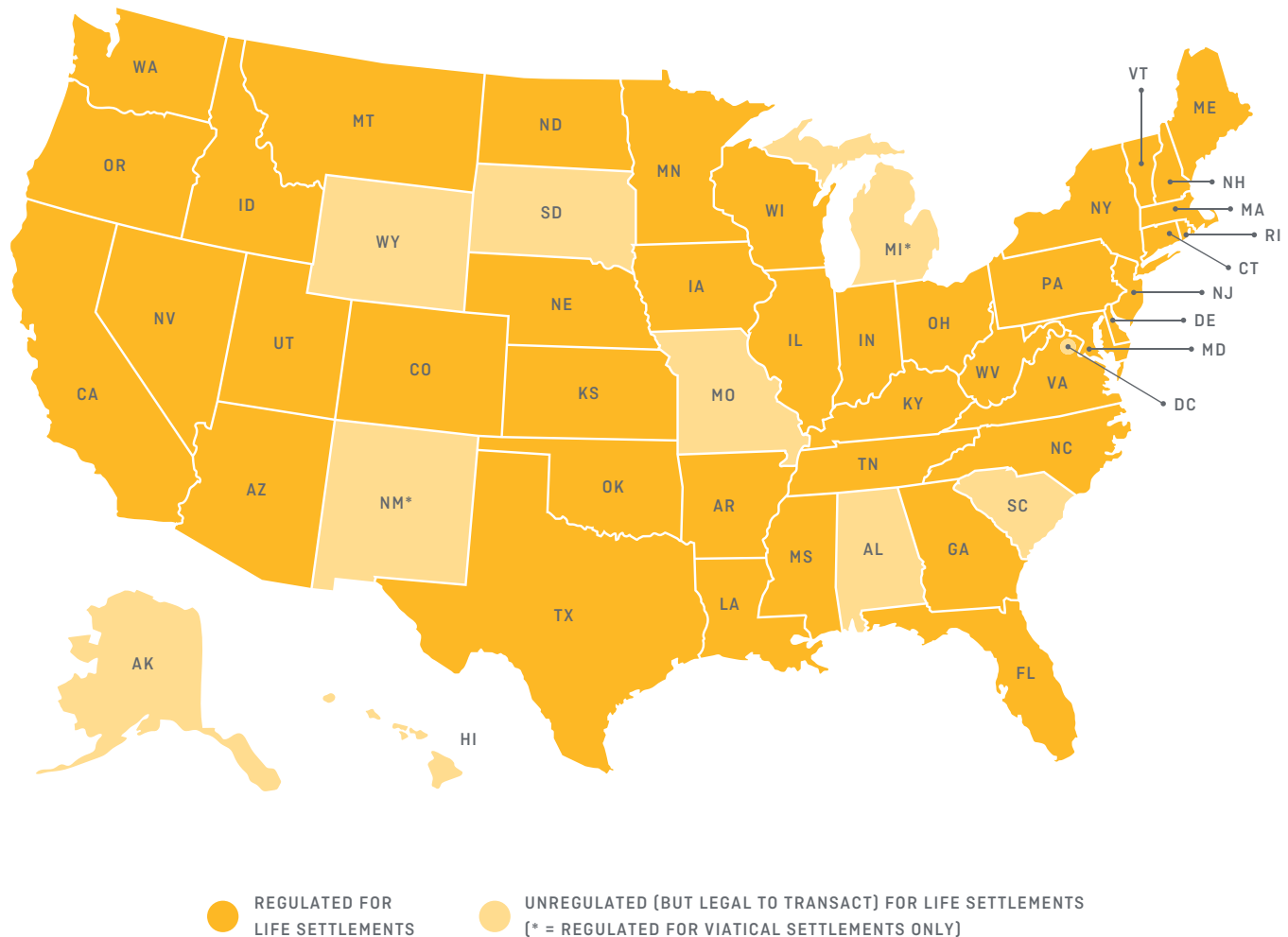
In 2018, Congress introduced HB7302, which would allow life settlement proceeds to be rolled over, tax-free, into investment accounts dedicated to fund senior healthcare needs, including long-term care needs. If adopted, this new law would help seniors use assets they already own—their life insurance policies—from which they otherwise often realize no benefit, to pay healthcare costs in retirement. This legislation would reduce dependence on government programs such as Medicaid, thus saving billions for federal and state governments.

LIFE SETTLEMENT REGULATION

43 States Regulate Life Settlements

Life settlements are one of the most transparent and secure financial service transactions in the United States and are both well-regulated and highly-regulated by state insurance laws and regulations.

Over 90% of the US population live in the 43 states that currently regulate life settlements.



LIFE SETTLEMENT QUALIFICATIONS

Life settlement companies appraise policies based on information related to the policy and the health of the insured. In most cases, a brief interview can help establish if an individual would qualify for a life settlement.

Lighthouse Life Case Submission Parameters

Lighthouse Life accepts referrals based on the following parameters (subject to case-specific exceptions):

POLICY TYPE	All policy types
POLICY SIZE	\$100,000 +
INSURED'S AGE	70+, with exceptions for younger insureds with severe or multiple health impairments.
INSURED'S HEALTH	Impaired: A change of health is typically needed since the original policy was issued. Healthy: Healthy insureds may qualify if they are 75 or older (typically), without any cognitive impairments and with UL policies \$250,000+*
INSURED DOMICILE	US
CARRIER RATING	Investment grade or higher
RESTRICTIONS	No Stranger Originated Life Insurance (STOLI)

** Subject to state approval*

CASE EXAMPLE: UNIVERSAL LIFE (LAPSE PENDING)

Universal Life Policy (At Risk of Lapsing Within 12 Months)

POLICY TYPE	Universal Life
POLICY SIZE	\$250,000
INSURED'S AGE	77
INSURED'S RATING CLASS AT ISSUE	Preferred Non-Smoker
INSURED'S CURRENT HEALTH	Significant change in health (since the policy was issued) with multiple ailments
CASH SURRENDER VALUE	\$4,600
ANNUAL PREMIUM	\$12,000
LIFE SETTLEMENT VALUE	\$75,000

Case Description

Policyowner, who was also the insured, purchased the policy 15 years ago for income protection for his spouse. The policy did not perform up to expectations due to the lower interest rate environment since the time the policy was originally purchased. The current premium of \$12,000 was three times higher than the original premium and

the policy was in jeopardy of lapsing within 12 months. The insured's health had deteriorated, and his family was concerned about his need for resources to pay for nursing care. The life settlement was timely and provided funding for his anticipated costs for care.

Many factors determine the value of a policy in a life settlement, including, but not limited to, the health of the insured and premium costs. The above case example illustrates a policy's value in a life settlement transaction.

CASE EXAMPLE: CONVERTIBLE TERM

15-Year Level Term Policy (Premium Increase Expected Within 2 Years)

POLICY TYPE	Term Life
POLICY SIZE	\$500,000
INSURED'S AGE	74
INSURED'S RATING CLASS AT ISSUE	Standard Non-Smoker
INSURED'S CURRENT HEALTH	One primary ailment (since policy was issued)
CASH SURRENDER VALUE	\$0
ANNUAL PREMIUM	\$1,900 with substantial increase in less than two years
LIFE SETTLEMENT VALUE	\$30,000

Case Description

Policyowner, who was also the insured, purchased a 15-year term policy 13 years ago to cover a mortgage he had on the family's vacation home. The mortgage was nearly paid off and there was no need to continue the coverage. The policy was converted to a low-cost Universal Life policy prior to being sold and the life settlement proceeds recaptured the after-tax cost of the 13 years of premium payments.

Many factors determine the value of a policy in a life settlement, including, but not limited to, the health of the insured and premium costs. The above case example illustrates a policy's value in a life settlement transaction.

CASE EXAMPLE: UNIVERSAL LIFE (BUSINESS CASE)

Universal Life Policy Originally Purchased as Part of a Buy-Sell Agreement

POLICY TYPE	Universal Life
POLICY SIZE	\$800,000
INSURED'S AGE	79
INSURED'S RATING CLASS AT ISSUE	Preferred Non-Smoker
INSURED'S CURRENT HEALTH	One primary ailment (since policy was issued)
CASH SURRENDER VALUE	\$18,000
ANNUAL PREMIUM	\$28,000 projected to age 100
LIFE SETTLEMENT VALUE	\$110,000

Case Description

Policyowner, who was also the insured, was a business owner who originally purchased a Universal Life policy to fund a buy-sell agreement for a family business. The business was in the process of being sold and the need for the coverage was eliminated.

Many factors determine the value of a policy in a life settlement, including, but not limited to, the health of the insured and premium costs. The above case example illustrates a policy's value in a life settlement transaction.