

# HOW A LIFE SETTLEMENT OPERATES

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## Important Information You Need to Know Before Entering Into a Life Settlement

### ▶ *What are life settlements?*

A life settlement is the sale of a life insurance policy or certificate (hereafter referred to as policy) issued on the life of a person, who does not have a terminal, chronic, or catastrophic or life-threatening illness or condition that is likely to result in death within 24 months, for a dollar amount that is less than the policy's face value. The person who owns the policy is called the life settlor. This person may or may not be the person insured under the policy. Only the owner of the policy has the right to sell the policy. If you do not own the policy, the owner cannot sell the policy without the insured's consent. The entity that buys the policy is called a life settlement provider (hereafter referred to as a "provider"). Life Distributors of America, LLC is a broker who helps with the sale of the policy.

A life settlement offers you the opportunity to receive a portion of your policy's death benefit while you are still alive.

### ▶ *How do life settlements work?*

Most providers, provider representatives or brokers will ask you to complete an application, along with policy and medical release forms so that they can gather information from your life insurance company and your doctors. Typically, information gathered must be kept confidential and cannot be given to anyone without your written approval. If you qualify, one or more providers will make you an offer for your policy. The amount offered for your policy will be based on certain facts such as how long the insured is expected to live, the amount you pay for premiums, the rating of your insurance company, and your policy's provisions (e.g., a waiver of premium). If you accept the offer, you will be asked to sign a life settlement contract.

### ▶ *Do I have to sell all of my policy?*

No. You can sell all of your policy or you can sell only a part of your policy. If you sell only a part, you will be required to assign or transfer only the part being sold. If you sell the entire policy, the provider will become the new owner of the entire policy.

### ▶ *Is there a difference between a broker and a provider representative?*

Yes. Although both a broker and a provider representative will help you with the sale of your policy, there are important differences between them. A broker works for you. A broker will check with multiple providers to find the best offer for you. A provider representative works for a specific provider. A provider representative will only check with the provider that he or she works with to get you their offer. If you use someone to help with the sale of your policy, you may want to ask whether they are a broker or a provider representative.

### ▶ *Is the provider, provider representative or broker required to keep my information confidential?*

Yes. Any financial, medical or personal information obtained by a provider, provider representative or broker about you, including your family members, a spouse or a significant other, may not be shared with anyone unless you have given written approval that the information may be shared. Any written approval for the sharing of this information must show who may get the information and why it will be released.

▶ ***If I enter into a life settlement contract, when will I get my money and who will pay me?***

Providers generally use an escrow agent or trustee to handle the money that will be paid to you. Usually, the escrow agent or trustee will send you the money within three business days of the date the insurance company confirms to the provider that the transfer of ownership has been completed. The exact process should be spelled out in your life settlement agreement.

▶ ***What if I change my mind?***

If you change your mind about selling your policy, you can usually cancel the life settlement contract at any time up to the 10th day (varies by State) after you receive the money from the provider. To cancel the life settlement contract, you will have to return any money the provider paid to you for the purchase of your policy along with any premiums the provider paid to keep the policy in force. If you change your mind, remember to arrange with the provider to have the insurance company transfer the ownership of the policy back to you.

▶ ***What if I die shortly after selling my policy?***

If the insured dies at any time up to the 15th day (varies by State) after you receive the money from the provider, most settlement contracts will automatically cancel. The provider will work with you to reverse the sale of the policy. You will have to return any money the provider paid to you for the purchase of your policy along with any premiums the provider paid to keep the policy in force. Then the current beneficiaries under the policy will receive the full policy proceeds from the insurance company.

▶ ***What happens after I get my money?***

After the provider has paid the owner for the sale of the policy, the provider may begin calling to check on the health status of the insured.

▶ ***What if I don't want to be contacted about my health status?***

If you do not want to be contacted about your health status, you may appoint an adult person or persons to be contacted on your behalf. That person must be in regular contact with you and you must give the provider their name, address and phone number. Once you give the provider this information, they should not contact you unless they have tried and have not been able to reach your contact person for more than 30 days. If you need to, you can change your contact person at any time by sending a written notice to the provider.

▶ ***How will I know who will be calling me or my contact person about my health status and how often can they call?***

The provider usually will give you the name, address, and phone number of the person who will be contacting you or your contact person(s) about your health status. Typically contact is limited to no more frequently than once every three months.

▶ ***Will the provider be calling my doctor to check on my health status?***

Some providers will use your signed medical release form to check with your doctor for updates on your health status. The medical release form tells your doctor that you want your doctor to give your medical information to the provider, broker or provider representative. If you decide you do not want the provider to contact your doctor, you have the right to withdraw your medical consent in accordance with law.

▶ ***Does anyone make money or commissions from the sale of my policy?***

Yes. You have the right to ask for and receive the names of all brokers or agents representing you who have or will receive some type of payment from the sale of your policy, along with the amount and terms of the payment. You may ask for this information at any time. Life Distributors of America, LLC's compensation shall not exceed a maximum of 8% of the face amount of the life insurance policy sold.

▶ ***How will I know if my policy includes extra coverage like accidental death, future increases in the death benefit, or covers other family members? Do these affect my settlement?***

Some policies contain extra coverages. You may want to contact your insurance company or agent to see if your policy contains a provision or rider providing extra coverage.

If your policy includes a benefit for accidental death, the additional death benefit may not be included as part of your settlement.

If your policy provides future increases in the death benefit, you may want to ask how much the provider is paying you for the purchase of this benefit.

If your policy is a joint policy, or provides coverage on the lives of other family members or anyone other than yourself, there may be a possible loss of coverage for these other family members.

With respect to a policy containing a provision for double or additional indemnity for accidental death, the additional payment shall remain payable to the beneficiary last named by you before entering into the viatical settlement contract, or to such other beneficiary, other than the provider, as you may thereafter designate, or in the absence of a beneficiary, to your estate.

▶ ***Are there other options available besides selling my policy?***

Your insurance company may offer options, such as accelerated death benefits, loans and surrender of the policy for its cash value. Before entering into a life settlement, you should contact your insurance company or agent to see what options are available.

▶ ***What other things should I know about a life settlement contract?***

Some things that may be affected if you enter a life settlement are:

- There may be a loss of life insurance coverage on your spouse or other family members, if the policy (or any riders attached to it) covers their lives;
- The amount of premiums you pay;
- Policy cash values or dividends, if provided for in the policy;
- A loss of other rights or benefits, including conversion rights and waiver of premium benefits that may exist under the policy;
- You may incur tax consequences;
- Your ability to receive supplemental social security income, public assistance, and public medical services including Medicaid; and
- The money you receive for your life settlement could be taken away from you by creditors, personal representatives, trustees in bankruptcy and receivers in state or federal court.

Because of the above, you should contact an attorney, accountant, estate planner, financial planning advisor, tax advisor, social services agency, your insurance company, or agent, as applicable; to find out what effect selling your policy will have on you.

