WHAT IS A LIFE SETTLEMENT?

- A life settlement is the sale of an in-force life insurance policy to a third party for a market-determined value greater than cash surrender value and less than the death benefit.
  - Those no longer needing or wanting their policies have two traditional options – surrender for cash value or lapse – and life settlements offer an alternative.
    - The lump sums from settlements often exceed cash surrender value multiple times over.
    - Sellers can also retain a reduced interest in the death benefit for beneficiaries.
  - The market began to develop in the 1980s, and it and the regulatory framework have evolved significantly in the decades since.
- Buyers of policies are licensed life settlement providers.
  - They purchase policies directly or with the help of licensed life settlement brokers or life insurance agents in a highly regulated transaction.
  - Providers pay any additional premiums required to maintain the policy.

LIFE SETTLEMENTS ARE A PROPERTY RIGHT

"[L]ife insurance has become in our days one of the best recognized forms of investment and self-compelled saving. So far as reasonable safety permits, **it is desirable to give to life policies the ordinary characteristics of property** … 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."

Opinion authored by Justice Oliver Wendell Holmes, Jr.
United States Supreme Court, *Grigsby* v. *Russell (1911)*

VALUE OF A LIFE SETTLEMENT

Illustrative Termination Value of a $500,000 Policy

	Lapse	Cash Surrender Value	Life Settlement
Illustrative Proceeds to Insured	$0	$7,500	$45,000

The economics for a senior to maintain a policy with a face value of $500,000 can be challenging:

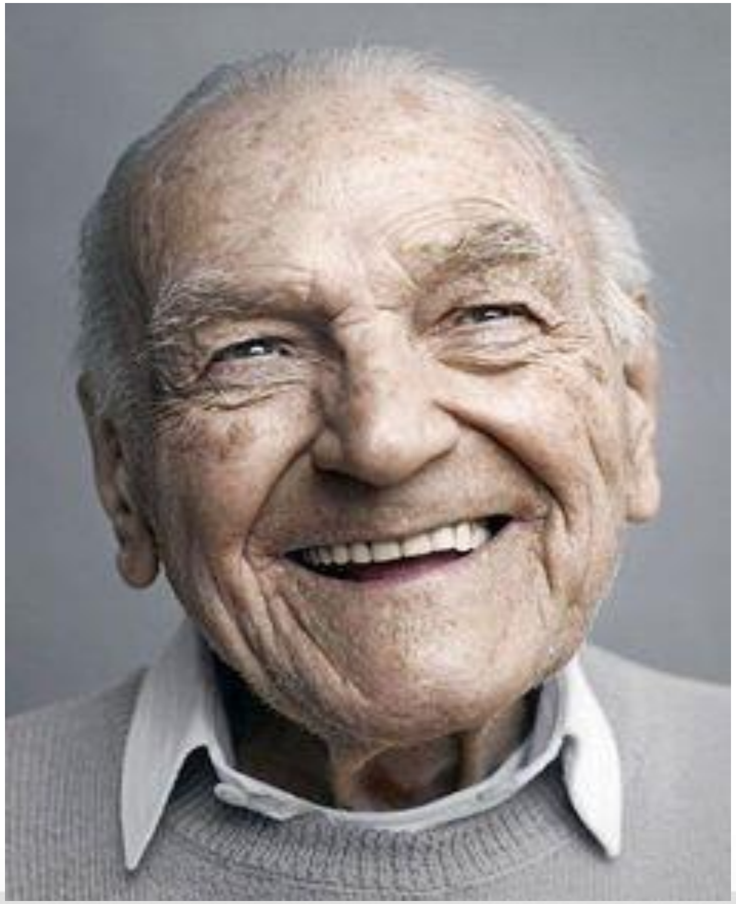
- Premium of approximately $15,000 annually (or 3% of face value); and
- Surrender/cash value of approximately $7,500 (or 1.5% of face value)

*"[T]he ability to sell their policies as a life settlement enabled policyowners to receive an amount **more than four times greater** than what they would have received had they surrendered their policies to their insurance companies."*

– London Business School (2013)

CASE EXAMPLE: FUNDING LONG-TERM CARE

Policy Size	$250,000
Insured's Age	77
Rating at Issue	Preferred Non-Smoker
Current Health	Significant change in health. Multiple ailments.
Cash Surrender Value	$4,600
Annual Premium	$12,000
LIFE SETTLEMENT	$75,000



VERY FEW POLICIES PAY A DEATH BENEFIT

- Over **92%** of life insurance policies (by face amount) terminate without paying a death benefit.
  - **Death Benefit Paid** – In 2018, **$57 billion** was paid on individual life policies. That is only 7.5% of all policy terminations.
  - **Cash Surrender** – In 2018, policies with an aggregate face amount of **$133 billion** were returned for the contractual cash surrender value.
  - **Lapse** – Most individual life policies simply lapse, and owners receive nothing. In 2018, 7.7 million policies, with an aggregate face amount of **$570 billion**, lapsed in this way.
    - Lapse rates are increasing … 40% higher than five years before.
    - And, lapse rates could increase even more due to the economic impacts of the COVID-19 pandemic.

Source: American Council of Life Insurers 2019 Fact Book

MOST SENIORS TERMINATE THEIR LIFE POLICIES

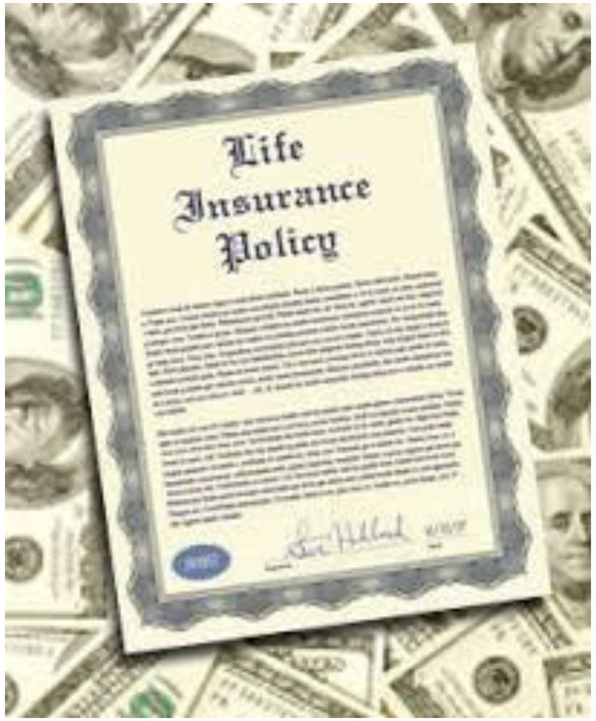
- Most seniors own life insurance.
  - But seniors are 25% more likely to have policies lapse than the general population.
  - 75% of term and universal life policies owned by seniors are lapsed or surrendered.
- Why do seniors terminate their policies?
  - The policy is no longer needed.
  - They need greater retirement income and resources for health care, LTC needs, etc.
  - The policy becomes too expensive.

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

THE CURRENT LIFE SETTLEMENT MARKET

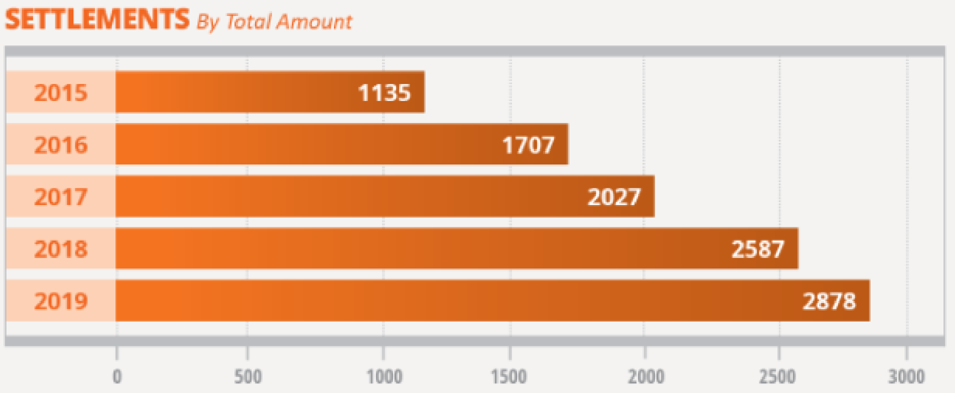
LIFE INSURANCE ACTIVITY

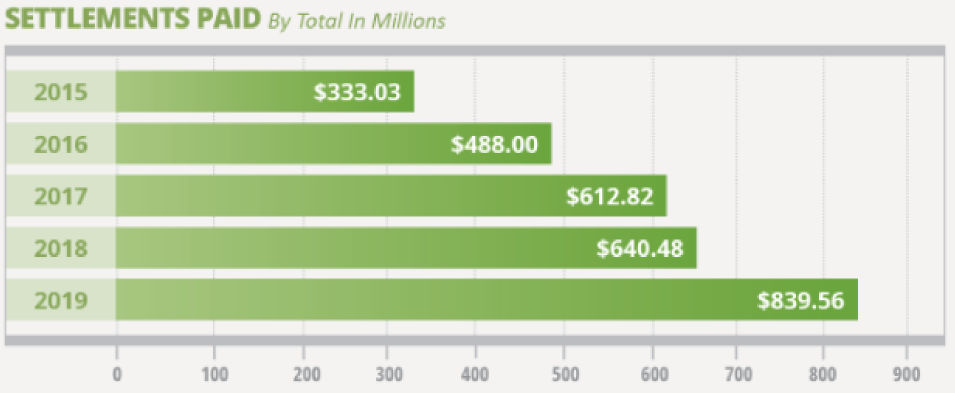
- There were 138.5 million individual life policies (with a total face amount of over $12.1 trillion) in force in 2018.
  - Over $1.7 trillion in individual life insurance coverage was purchased in the U.S. in 2018.
  - And, insurers report increases in the sale of new life policies in 2019.
- As noted earlier, about $700 billion in individual policy face value was lapsed or surrendered in 2018.



LIFE SETTLEMENT ACTIVITY

- The number of policies purchased went from 2587 in 2018 to 2878 in 2019.
  - That was an 11% increase over 2018 and a 154% increase over 2015 levels.
- Policy owners received nearly $840 million in proceeds from life settlements in 2019.
  - That was a 31% increase over 2018 and a 152% increase over 2015 levels.
  - This sum is only a small fraction of the policy face amount surrendered or lapsed every year. Lack of consumer and financial professional awareness are part of the explanation.





LIFE SETTLEMENT MARKET EVOLUTION

Average Senior In-Force Policy[(a)]	Average Life Settlement[(b)]
@$100,000	@$1,470,000

- The life settlement market traditionally focused on large policyowners, but it is increasingly reaching mid-sized policies.
  - Competition and the reality of the life insurance universe (i.e. 66% of policies are below $100,000) are driving this trend.

a) ACLI Fact Book (2017)
b) Life Settlement League Tables 2017: Market Grows 19%, Continues Upward Path, TheDeal.com (June 6, 2018)

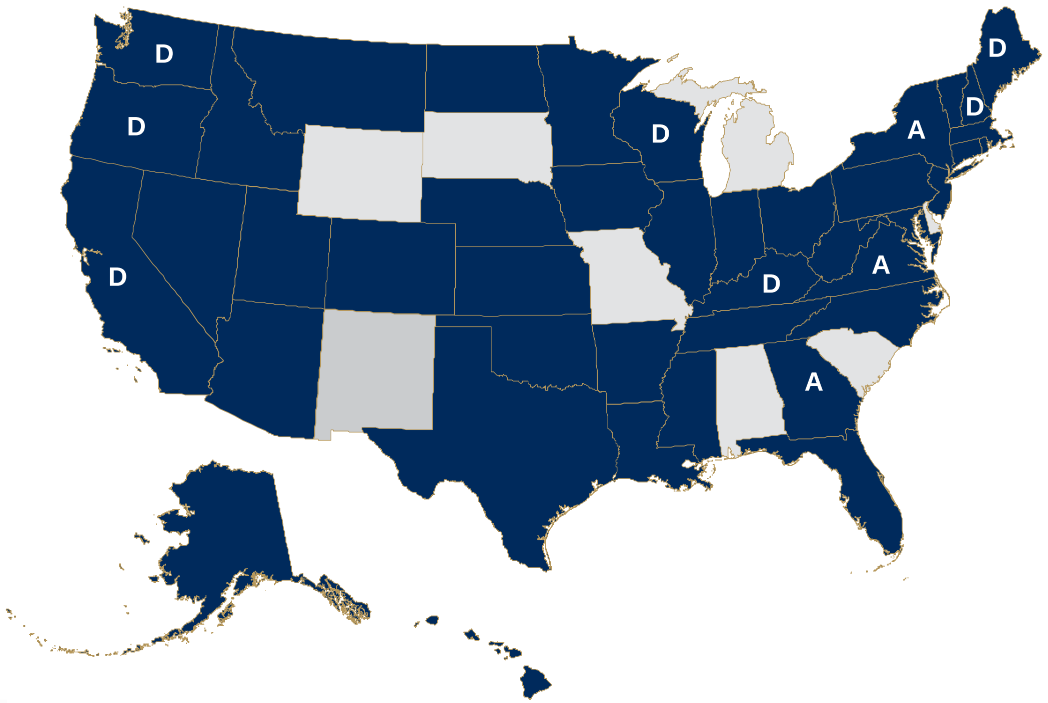
Table 20 — Universal Life Exposure by Policy Size Group

Policy Size	Average Face Amount Exposed	Percent of Policy Exposure
Under $25,000	$15,000	7%
$25,000–$49,999	$30,000	17%
$50,000–$99,999	$56,000	42%
$100,000–$299,999	$136,000	28%
$300,000–$499,999	$354,000	2%
$500,000 and over	$1,683,000	4%

REGULATION OF LIFE SETTLEMENTS

- Life settlements are among the most comprehensively and strictly regulated financial transactions in most states today.
  - Forty-three states (representing 90+% of the U.S. population) have established a broad regulatory framework.
- Regulatory obligations and consumer protections include:
  - Licensing and oversight of providers and brokers;
  - Fiduciary status for brokers;
  - DOI form approval;
  - Extensive consumer disclosure mandates (including disclosure of alternatives and of tax, legal, and other implications);
  - Privacy protections;
  - Funding requirements;
  - Competency certification;
  - Beneficiary acknowledgement;
  - Reporting requirements; and
  - Rescission periods.

THE REGULATORY LANDSCAPE TODAY

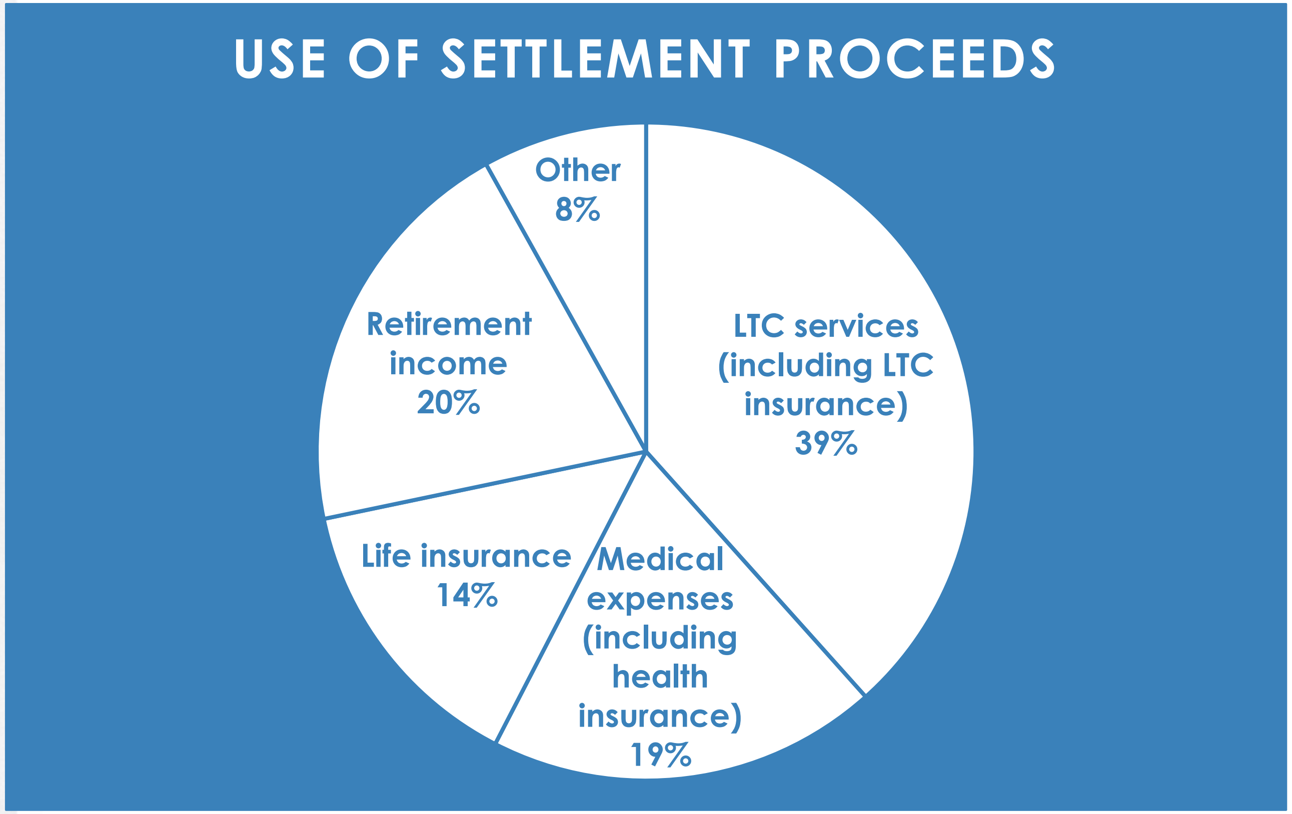


D=Disclosure Law | A=Anti-Retaliation Law

The marketplace is highly and effectively regulated today. According to the NAIC Consumer Database System, **two complaints** related to life settlements have been reported in the U.S. since the start of 2016.

LIFE SETTLEMENTS UNLOCK VALUE AND EXPAND FINANCIAL RESOURCES FOR SENIORS

HOW DO SENIORS UTILIZE LIFE SETTLEMENT PROCEEDS?



Not surprisingly, life settlement proceeds are often used for health care and LTC needs and to increase retirement income.

One life settlement provider's research found the following:

- 77% use settlement proceeds for immediate health care and LTC costs or to increase retirement income.
- 14% use the proceeds for new life insurance or to retain a portion of existing life insurance.

Source: Coventry (2013)

SENIORS NEED RESOURCES FOR RETIREMENT

RETIREMENT CRISIS

- The oldest baby boomers are now 74.
- 40% of near-retirees – 55- to 64-year olds – have no retirement savings. And the median amount in those retirement accounts for those who had any was $100,000.[(a)]
- *We have moved from a collective retirement system to one in which each person is expected to go at it alone… "**The retirement crisis is a tsunami that is rapidly approaching.**"* [(b)]

a) The Next Recession Will Show The Stark Reality Of The Retirement Crisis (Forbes, February 28, 2019)
b) US SEC Commission Kara M. Stein, October 16, 2018, Remarks at the Brookings Institution

SENIORS NEED HEALTH CARE AND LTC RESOURCES

SENIOR HEALTHCARE CRISIS

- Average out-of-pocket healthcare costs for senior couple (65 years old):

  $500,000+ [a]

- Long-term care costs paid for by Medicaid:

  50 Percent[b]

- Nursing home residents on Medicaid who are middle-class or above:

  40 percent [c]

a) Alliance for Senior Health Care Financing Policy Brief (December 2018).
b) Medicaid and Long-Term Services and Supports: A Primer (Kaiser Family Foundation (2015)
c) Department of Health and Human Services, ASPE Research Brief: Long-Term Care Insurance (2012) at 7.

PLAYING A ROLE IN LONG-TERM CARE FINANCING

- A NAIC white paper examining private market options for financing LTC services highlighted the potential role of life settlements.
  - Life settlements were **the only financing option mentioned that do not require seniors to pay additional money** in order to receive a long-term care benefit.
  - Policyowners receive an amount that is "**generally four or more times greater than if they lapsed or surrendered their policy, according to government and university studies.**"
- Changes in tax law could further help seniors unlock the value of their life policies and more effectively plan and pay for health care and LTC expenses.

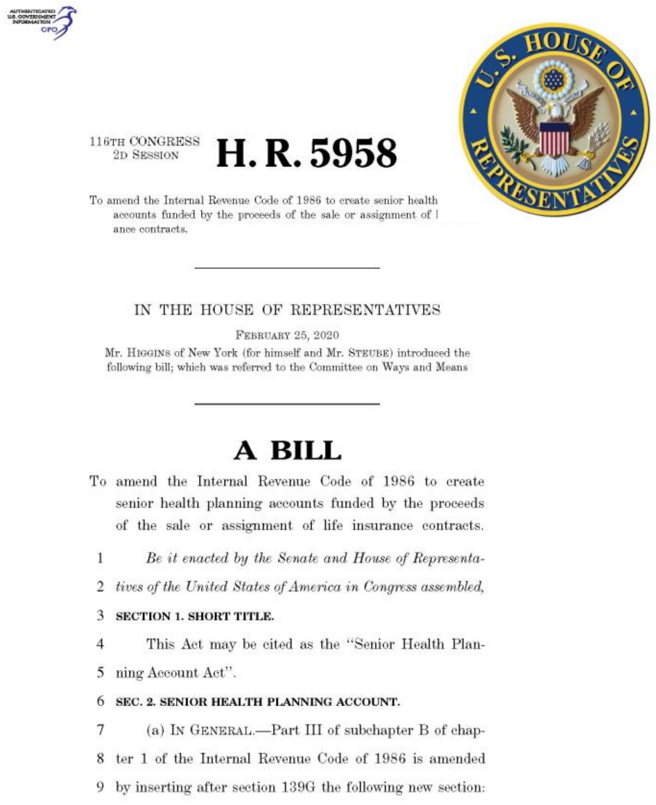
*"**Life Settlements** – the sale of an in-force life insurance policy for a market-based settlement value in excess of the cash surrender value (i.e., the account value less any surrender charge) – **is one option seniors might use to generate resources to pay for their long-term care needs.**"*

-- National Association of Insurance Commissioners
Private Market Options for Financing Long-Term Care Services
(July 2017)

NAIC National Association of Insurance Commissioners

H.R. 5958: THE SENIOR HEALTH PLANNING ACCOUNT ACT

- This federal proposal would allow life settlement proceeds to be rolled over, tax free, into accounts dedicated to funding permitted medical care expenses.
    - Undistributed amounts in the accounts, including investment earnings, would not be taxed during the lifetimes of the account holder and spouse.
    - Distributions would not be taxed if used for permitted purposes.
- This would allow consumers to tap the considerable value created in their policies and maximize existing financial resources. The result is that seniors would be empowered and given more control and options concerning care.
- It reduces the pressure on other private funding sources and generates revenue. It also preserves limited public resources by forestalling the need to access those resources (e.g. Medicaid) as quickly.



116TH CONGRESS
2D SESSION

H. R. 5958

To amend the Internal Revenue Code of 1986 to create senior health accounts funded by the proceeds of the sale or assignment of
ance contracts.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 25, 2020

Mr. HIGGINS of New York (for himself and Mr. STEUBE) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to create senior health planning accounts funded by the proceeds of the sale or assignment of life insurance contracts.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Senior Health Planning Account Act".

SEC. 2. SENIOR HEALTH PLANNING ACCOUNT.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after section 139G the following new section: