ESTATE TAX CHANGE

REMOVES NEED FOR LIFE INSURANCE

THE SITUATION

Jerry Steel[1] is a 88-year-old former owner and CEO of a successful manufacturing company. He has a net worth of approximately $4 million. Jerry bought two insurance policies in 2002 when the Federal estate tax exemption was $1 million and the maximum estate tax rate was 55%.[3] Since then, the estate tax exemption in 2015 has increased to $5.43 million, so Jerry no longer needs the insurance for his estate planning. When meeting with his advisor for his annual policy review, Jerry decided to surrender his policies. Jerry's life expectancy is estimated to be approximately three years.

THE OUTCOME

On Jerry's behalf, the advisor approached the Life Settlement team at ValMark to investigate the option to "sell" versus "surrender" the policies. ValMark worked with multiple providers to negotiate settlement offers resulting in a total gross offer of **$975,000[2] for both policies** (before expenses and commissions). The decision to sell the policies resulted not only in the savings of future premiums needed to maintain the policies but the settlement, in lieu of surrendering the policy, resulted in gross offers of more than 60% of the death benefit for each policy.

SUMMARY	POLICY #1	POLICY #2
POLICY TYPE	Fixed Universal Life	Fixed Universal Life
DEATH BENEFIT	$1,200,000	$400,000
CASH SURRENDER VALUE	$91,373	$41,950
ANNUAL PREMIUMS	$72,582 to age 100	$23,593 to age 100
LIFE SETTLEMENT OFFER	**$725,000 Gross[2]**	**$250,000 Gross[2]**

THE TAKEAWAY

If a policy was purchased in the early 2000s when the estate tax exemption was $1 million and the maximum estate tax rate was 55%, you may want to consider a life settlement for policies that may no longer be needed for estate planning. Each client's experience varies but in the case described above, the gross offer was *six times the cash surrender value* on the smaller policy and *more than seven times the cash surrender value* on the larger policy.

[1] Client name has been changed to protect confidentiality. | [2] The gross offer will be reduced by commissions and expenses related to the sale. | [3] Internal Revenue Code Section 2001. | Each client's experience varies, and there is no guarantee that a life settlement will generate an offer greater than the current cash surrender value. In such cases, the client can always surrender their policy to the carrier if the coverage is no longer needed. This material is intended for informational purposes only and should not be construed as legal or tax advice or investment recommendations. Consult a qualified attorney, tax advisor, investment professional or insurance agent about the issues discussed herein. Securities offered through ValMark Securities, Inc. Member FINRA/SIPC. | 7.27.15

NEW JERSEY LIFE & CASUALTY

CONTACT US | 973.535.0955 | MIKE DRANOFF | MIKED@NJLC.COM

LIFE SETTLEMENT DISCLOSURE

- 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, this buyer has a financial interest in the seller's death.
- A policy owner should consider the continued need for coverage, and, if the policy owner plans to replace the existing policy with another policy, the policy owner should consider the availability, adequacy and cost of comparable coverage.
- Policy owners considering the need for cash should consider other less costly alternatives.
- 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.
- Individuals should discuss the taxation of the proceeds received with their tax advisor.
- ValMark Securities supervises all life settlements like a security transaction.
- A life settlement may affect the insured's ability to obtain insurance in the future and the seller's eligibility for certain public assistance programs, such as Medicaid, and there may be tax consequences.
- ValMark and its registered representatives act as brokers on the transaction and may receive a fee from the purchaser.
- A life settlement transaction may require an extended period of time to complete. Due to complexity of the transaction, fees and costs incurred with the life settlement transaction may be substantially higher than other securities.
- Once the policy is transferred, the policy owner has no control over subsequent transfers.
- If you are an investor or a buyer of a life insurance policy then you should be aware that:
  - Investment in a life settlement is highly speculative.
  - Although a substantial profit may be realized, a substantial loss is also possible.
  - The death benefit may never be paid.
  - Additional funds may need to be invested to pay premiums if the insured lives substantially longer than expected.
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