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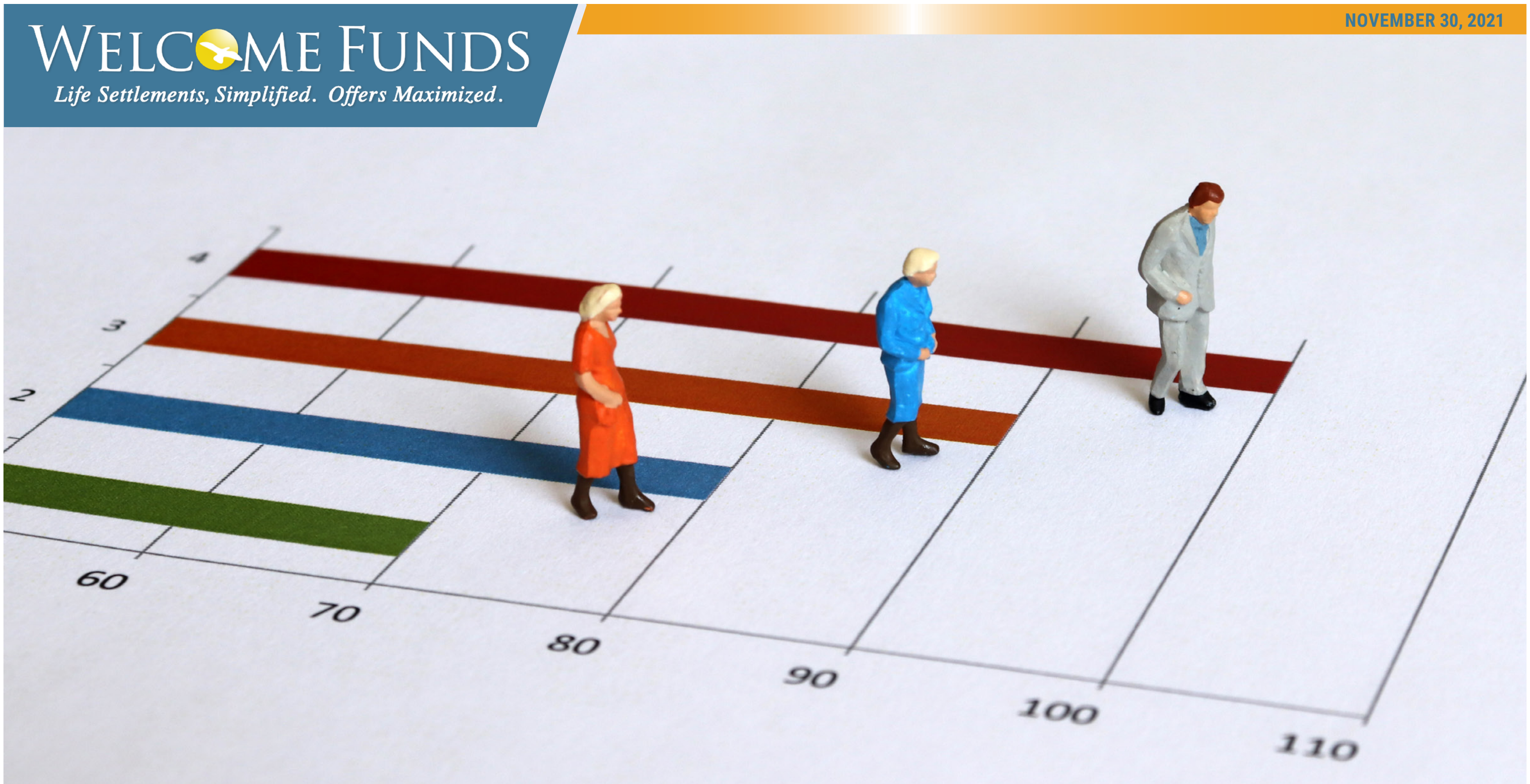
Life Settlements, Simplified. Offers Maximized.



IMPROVEMENTS IN LIFE EXPECTANCY UNDERWRITING

Life insurance is one of the oldest financial products in the Western Hemisphere. Since the first life insurance policies were offered in the early-1700s, there is one overriding factor that determines cost to the consumer: the projected life expectancy of the insured.

The need to accurately forecast an insured's life expectancy is a function of what insurance experts call "longevity risk" — a simple principle that contemplates the risk that an insured's actual lifespan will exceed the carrier's expectations and pricing assumptions. For example, if an insurer prices a life insurance policy based on an individual estimated to live to be 88 years old, and that person actually passes away at the age of 68, then the carrier is unable to collect premiums for as long as they projected - it must pay out the death benefit much sooner.

This same fundamental premise of longevity risk is also at the crux of life insurance policies being bought and sold on the "secondary market" through transactions called life settlements. The good news for financial advisors and their clients is that improvements in life expectancy underwriting and technology are helping the marketplace be more secure and efficient for anyone who wants to sell a life insurance policy.

Life Expectancy and Life Settlements

Candidates for life settlements are typically aged 70 or older, with a life insurance policy that has a death benefit of at least $100,000. The senior receives a cash payment for transferring the ownership of the life insurance policy, and the purchaser assumes all future premium payments in exchange for the death benefit when the insured passes away.

Of course, investors in life settlements must carefully consider longevity risk before they decide to purchase a life insurance policy on the secondary market. This consideration relies on life expectancy projections, just like insurers use the same forecasts when calculating the original premiums for the policy. According to a 2019 white paper from the National Association of Insurance Commissioners (NAIC), there are two key drivers of change when evaluating longevity risk:

- An aging population — It is estimated that those reaching retirement age will more than double from 2010 to 2050, increasing to an estimated 88 million people, which places strains on social services and retirement funding streams; and
- We are living longer — The U.S. average life expectancy at birth increased 62% from 1902 (47.3 years) to 2000 (76.8 years) and was approximately 79.5 years in 2020.

Life expectancy underwriting is a critical variable in establishing a potential selling price for a life settlement. The procedures include assessing the medical history of an insured and projecting the remaining number of months that person can be expected to survive. For life settlement investors, this morality projection is crucial because it establishes the estimated time frame during which any premiums must continue to be paid by the policy owner and how long it will take to collect the death benefit. The shorter amount of time until the death benefit is projected to be paid out, the more cash the investor can offer to pay for the life insurance policy.

For any market to be efficient and sustainable, both sides of the transaction — buyers and sellers — must benefit in tangible ways. In the life settlement market, the key to a mutually beneficial agreement is for life expectancy underwriting to be accurate and consistent. If underwriting opinions are too conservative, then policy owners will not receive fair economic value for the sale of their policies. On the other hand, if underwriting opinions are too aggressive, investors will consistently overpay for policies, have to pay premiums much longer than expected, and potentially lose money on their investments. Neither of these scenarios are in the long-term best interests of market participants.

Improvements in Life Expectancy Underwriting

Fortunately for all participants in the life settlement industry — including financial advisors and their clients — there have been tremendous improvements in the reliability of life expectancy underwriting.

Life expectancy underwriting in the life settlement industry, as previously referenced, is similar to the methodology used by life insurance companies to evaluate longevity risk when policy quotes are initially offered to an insured. However, there are important differences that require experience and knowledge of the secondary market.

For example, life settlement transactions tend to involve insureds who have higher socioeconomic characteristics than the average insured, which leads to longer life expectancy projections. An experienced life settlement underwriter who understands this nuance will account for it when determining a life expectancy. In addition, improvements in science and technology have enabled us to learn more about expected lifespans.

The American Academy of Actuaries and the Society of Actuaries published revised mortality tables in late-2018. The new data led the leading U.S.-based life expectancy providers to incorporate some important changes to their underwriting models, increasing their older-age mortality projections by an average of 9 to 13 percent. This important change immediately altered the models used in new life settlement transactions that have occurred since that time.

An Efficient and Mature Market

The ability to effectively manage longevity risk with more reliable life expectancy estimates has provided all life settlement market participants with a high degree of confidence in the integrity of such estimations. Accurate projections have been made possible by leveraging new scientific learnings and applying new data discoveries.

Guided by these encouraging developments, life expectancy forecasts will continue to improve. Improvements will help buyers of life insurance policies to better manage their longevity risk and sellers of life insurance policies to be more confident that they obtain fair value for their life insurance assets. And as more financial advisors and consumers realize that there is an alternative to lapsing or surrendering a life insurance policy that is no longer needed or affordable, they will explore the possible market value of the policy as a life settlement.

The U.S. life settlement industry is an efficient and mature market that offers seniors a potential solution to their cash needs with a regulated transaction that is safe and ethical. Financial advisors can quickly obtain a no-obligation fair market appraisal of their client's life insurance policy and then compare that option to the cash surrender value offered by the insurance company. It is a powerful alternative that is fueling consumer demand for life settlements and that will sustain the industry's steady growth in the future.

And the only way to make sure that a senior is obtaining the true fair market value for a life insurance policy is to work with a licensed and experienced life settlement broker who has a fiduciary duty to represent his or her best interests.

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ABOUT WELCOME FUNDS

Partner with Welcome Funds and access our Life Settlement Platform for BGA's.

Over the past 21 years, we have served in the best interest of policy owners by maximizing life settlement offers through auction based negotiations. When buyers compete, policy owners win!

26,000+	$825+	12+
Offers Negotiated	Million Paid to Consumers	Average # of Bids Per Policy