



## NEW TAX ACT CREATES LANDMARK ADVANTAGE FOR LIFE SETTLEMENTS RETROACTIVE TAX BENEFITS MAY BE AVAILABLE

### THE SITUATION

William Penn,<sup>1</sup> a retired, 84-year-old entrepreneur, purchased two policies to fund a buy-sell agreement and a third policy for key-man insurance between 1996 and 1999. After William's retirement, the policies were no longer needed for their original use. As William's financial advisor, we suggested that he consider selling the policies on the secondary market through a life settlement. William's life expectancy was estimated between 69–84 months.

After the sale of William's three policies, his accountants calculated the taxes due based upon Revenue Ruling 2009-13 which provided that the basis of the policy for determining gain was total premiums paid minus mortality charges. However, the 2017 Tax Cuts and Jobs Act changed how the tax basis is determined. This has resulted in a much more favorable tax outcome for William because he can now file an amended return and obtain a refund on taxes previously paid.

### THE OUTCOME

	FACE AMOUNT	NET TO CLIENT <sup>2</sup>	OLD RULES TAXABLE PORTION	NEW RULES TAXABLE PORTION <sup>3</sup>	REDUCTION IN TAXABLE INCOME
Policy #1	\$3,000,000	\$425,000	\$425,000	\$0	\$425,000
Policy #2	\$1,106,202	\$157,831	\$149,867	\$0	\$149,867
Policy #3	\$1,195,000	\$209,264	\$84,684	\$0	\$84,684
TOTALS	\$5,301,202	\$792,095	\$659,551	\$0	\$659,551

### THE TAKEAWAY

The life settlement provisions of the new Tax Act give the same tax treatment to people selling their policies as those who surrender them to insurance companies. "The changes have been long coming, and will be of great benefit to senior consumers who seek to maximize the value of policies they may no longer need or can afford. Removing the tax complexity will have a positive impact on the growth of the industry."<sup>5</sup>

Over the last four years, the life settlement market has seen a resurgence of activity and capital sources. Life settlement contract transactions shot up by 47% in 2016. 2016 was the busiest year in the secondary market since 2009.<sup>4</sup>

<sup>1</sup> Client name has been changed to protect confidentiality. | <sup>2</sup> Net to client is after any reduction for commissions and expenses related to the sale. | <sup>3</sup> 2017 Tax Cuts and Jobs Act 2017. | <sup>4</sup> See "Market Volume Grows 47%"; The Deal, May 25, 2017. | <sup>5</sup> See "Tax Provisions Reversing IRS ruling Pass Congress"; The Deal, January 26, 2018. | 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.



## LIFE SETTLEMENT DISCLOSURE

- Valmark Securities and its registered representatives act as brokers in the life settlement 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.
- Neither Valmark Securities nor its registered representatives provide tax advice. Valmark Securities supervises a life settlement like a security transaction. Securities offered through Valmark Securities, Inc., Member FINRA, SIPC.
- In a life settlement arrangement, 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.
- 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. A life settlement may affect the seller's eligibility for certain public assistance programs, such as Medicaid, and there may be tax consequences. Individuals should discuss the taxation of the proceeds received with their tax advisor.
- Individuals considering life settlements should carefully read the entire sales agreement, consult their advisors, and consider all available options before selling their policies.
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