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Retained Death Benefit Settlement (RDB) Executive Summary for Financial Advisors

The flexibility offered by the secondary market for life insurance policies gives a policyholder the ability to respond to changes in his or her life situation.

Insurance Revisited

Life insurance has played an important role in the lives of individuals as an estate planning tool. However the conditions under which an individual has purchased life insurance may change with time:

- Coverage may no longer be needed
- The cost of maintaining life insurance may become prohibitive
- Changes in estate planning needs

Until recently, if a policy owner opted out of a policy by surrendering the policy or allowing it to lapse, the additional value was relinquished back to the issuing life insurance company.

A life settlement is an alternative to this surrender or lapse of a policy, or when the owner no longer needs or can no longer afford to pay the premiums.

Nevertheless, in some cases the need for adequate coverage, beyond the policy owner's abilities to maintain premium payments, remains.

RDB in Brief

A retained death benefit (RDB) was developed with the purpose of providing policy owners the option to sell their life insurance policy while retaining a portion of the death benefit premium-free.

RDB allows policy owners to settle their policy for market value which provides more coverage than a traditional exchange based on the cash value offer.

As a result, advisors can better serve their clients by appraising their policies in the secondary market and potentially providing an alternative that supersedes that offered by the insurance carriers.

Model Candidate

Ideal candidates for a RDB transaction of at least 65 years of age with \$1,000,000 or more of life insurance coverage, who wish to eliminate premium payments while retaining a portion of their life insurance.

Scenarios that could lead to a RDB transaction include:

- A change in health or marital status
- Prohibitive cost of insurance coverage

- Key employee coverage is too expensive or no longer needed by the sponsoring company
- Gifts for premium payments are subject to taxation
- Insurance is performing below expectations

Financial Advisors

RDB provides financial advisors with access to new and innovative tools to help maximize the value of their clients' assets. Therefore, an increasing number of advisors consider it their responsibility to notify clients of the possibilities for increasing the value of their life insurance assets through a secondary market transaction.

A RDB transaction enables financial advisors to:

- Optimize their clients' insurance coverage
- Review and optimize capital allocation
- Offer more efficient investment opportunities
- Determines the market value of an insurance policy
- Offer an affordable insurance coverage alternative

Case Study One

Policy Type: Universal life

Insured: 88-year-old male

Face Amount: \$3,000,000

Surrender Value: \$0

The individual had purchased \$3,000,000 in life insurance coverage, however he was no longer able to afford the policy, and he was faced with the challenge: How do I reduce my insurance coverage while at the same time maximizing the value of my policy?

A RDB helped insured keep \$1,500,000 of his \$3,000,000 policy and he was no longer required to pay premiums.

Magna was able to provide the individual with an offer that would allow her to retain 50% of his coverage without having to pay a single premium in the future.

Case Study Two

Policy Type: Universal life

Insured: 86-year-old female

Face Amount: \$5,000,000
Surrender Value: \$0

The individual had purchased \$5,000,000 in life insurance coverage. Years later, she was no longer able to afford premium payments.

A RDB helped insured keep \$2,700,000 of her \$5,000,000 policy and she was no longer required to pay premiums.

Magna was able to provide the individual with an offer that would allow her to retain 54% of her coverage without having to pay a single premium in the future.

Consumer Benefits

A retained death benefit gives policy owners a new alternative by providing the benefit of maintaining coverage while eliminating future premiums.

As a result clients can typically:

- Maintain a paid-up benefit
- Receive an immediate cash payment
- Optimize capital allocation
- Create additional disposable income by eliminating future premium payments

About Magna

Magna Life Settlements helps clients get the most value out of their life insurance policies.

Since 2004, Magna has purchased unwanted and unneeded life insurance policies. Magna is consistently one of the top three providers in the life settlement industry.

Our staff has over 100 years of combined experience in life insurance, medical underwriting, claims, actuarial services, and financial markets. Magna Life Settlements strongly supports regulation that protects both consumers selling their policies and institutional investors interested in providing funds to purchase policies.

Magna recognizes and complies with its obligations to maintain confidentiality of all personal, financial, health and medical information.