

SWAPPSM (Settlement With a Paid-up Policy)

Executive Brief for Financial Advisors

SWAPP is a revolutionary transaction for the secondary market for life insurance. It enables consumers to optimize their life insurance coverage while eliminating premium payments. As a result, SWAPP will redefine how you manage your client's life insurance assets and allow you to offer a compelling new estate planning option. We invite you to learn more.

Insurance Optimized

Life insurance has long been a valuable estate planning tool. However, the cost of maintaining insurance for high net worth individuals at older ages presents significant challenges. Underperforming policies, due to low interest rates, combined with longer life expectancies, often put the annual outlay beyond a policyowner's ability to maintain ongoing premium payments.

Still, the need for adequate coverage remains. Prior to the secondary market for life insurance, there were few options for consumers who wanted to retain coverage while eliminating premium payments. Nonforfeiture laws provide for: 1) surrendering the policy for cash or 2) exchanging it for a paid-up policy with a reduced face amount. Because both of these options are based on cash surrender value, they frequently undervalue the policyowner's asset.

As a result, there is a compelling need for paid-up benefits based not on cash value, but on market value.

Time to SWAPP

With SWAPP, Coventry First has created the option to transfer an underperforming policy's market value into a new paid-up policy that can be based on either guaranteed or current rates. By tapping into the market value of the original policy, SWAPP provides more coverage than a traditional exchange — more than cash value would provide. As a result, qualifying clients now have a strategy to meet their estate planning needs by retaining a significant amount of coverage while eliminating future premium payments.

The result is a revolutionary shift in how life insurance assets are managed. Instead of accepting the carrier's nonforfeiture options, advisors are now having their clients' policies appraised on the

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secondary market. In return they learn what the policy is worth in cash and as a paid-up policy. Armed with this information, they can help their clients use their capital more efficiently.

Ideal Candidates

Ideal candidates for SWAPP are high net worth individuals who wish to reduce or eliminate premium payments while still retaining coverage. Possible scenarios leading to SWAPP include:

- Existing insurance is performing below expectations.
- Client retires or sells a business.
- A change in health or marital status.
- Key employee coverage is too expensive after an executive retires.
- Client gifts for premium payments are now subject to gift tax.

In short, as life circumstances change, clients require new tools that enable them to increase the efficiency and performance of their life insurance holdings. SWAPP gives them an extraordinarily powerful new option to maximize their estate.

Requirements for SWAPP

In order to qualify for SWAPP, clients must be age 65 or older with:

- A life insurance policy with a face amount of at least \$500,000.
- A change in insurability since the policy was issued.
- Life expectancy of 15 years or less.

Transaction Process

The SWAPP process begins with LifegainSM Coventry First's sophisticated valuation system that determines the market value of a life insurance policy. Here is how the process works:

- A completed Lifegain questionnaire and authorization is submitted to Coventry First along with carrier illustrations and the insured's medical records for the last five years.
- Coventry First values the policy to determine if an offer can be made.
- Coventry First relays the offer to the advisor detailing the policy's market value in cash and as a paid-up policy.
- Once an offer is accepted, Coventry First issues closing documents.
- After receiving the executed closing documents, change of ownership and beneficiary forms are sent to the life insurance company.
- Upon confirmation of the change forms being processed, a new paid-up policy is issued to the policyowner.

The Importance of Institutional Capital

All secondary market transactions from Coventry First are funded with institutional capital. Not only does institutional backing provide a secure funding source, it also provides the highest degree of consumer protection with regard to privacy and confidentiality. At no point is a client's policy, or the personal information associated with it, ever in the hands of an individual investor.

Tax Implications

At Coventry First, SWAPP is considered a 1035 exchange — a tax-free transaction. Naturally, clients should consult their tax advisors to assess their respective tax situations as Coventry First does not provide tax advice.

Consumer Benefits

SWAPP represents a revolutionary breakthrough for policyowners. It enables them to truly optimize their coverage by providing a more appropriate policy while eliminating future premiums. As a result, clients can typically:

- Receive a paid-up policy based on market value.
- Create a guaranteed benefit in place of a non-guaranteed benefit.
- Retain a more appropriate level of coverage.
- Upgrade the credit rating of the insurer.
- Create additional disposable income by eliminating future premium payments.

New Role for Advisors

It has never been more important for advisors to understand the value of their clients' assets and what opportunities are available. Sound financial management dictates that advisors appraise their clients' holdings regularly. With the introduction of SWAPP and other secondary market opportunities, it is now essential that life insurance be included in any appraisal. For this reason, an increasing number of advisors consider it their responsibility to notify clients of the possibilities for increasing the value of their assets via the secondary market.

By providing advisors with a new source of value, SWAPP is a powerful tool for enhancing client relationships and growing an advisor's business. Specifically, SWAPP enables financial advisors to:

- Review a client's portfolio on a regular basis.
- Help clients understand the fair market value of their policy.
- Assist clients in optimizing their coverage.
- Suggest more efficient investment opportunities.

Policy: **Universal Life**

Insured: **Female, age 79**

Face Amount: **\$5,000,000**

Cash value: **\$1,100,000**

Coventry First provided a \$2,800,000 guaranteed paid-up policy

The policyowner still required coverage for estate planning purposes, but wanted to eliminate the annual premium of \$125,000. The carrier offered a \$2.4 million reduced paid-up policy. Since the policy was underperforming, the advisor suggested having the policy appraised by Coventry First, which yielded the option of a \$1.5 million life settlement or a \$2.8 million paid-up policy. The client chose SWAPP, retaining a \$2.8 million policy for her estate, while eliminating future premiums. The advisor received commission on the transaction as well as renewal commissions.

Policy: **Term**

Insured: **Male, age 74**

Face Amount: **\$10,000,000**

Cash value: **\$0**

Coventry First provided a \$3,340,000 guaranteed paid-up policy

With annual premiums exceeding \$200,000, the policyowner was planning to let the policy lapse. The advisor suggested an appraisal by Coventry First, which yielded the choice of a \$660,000 life settlement or a \$3.34 million paid-up policy. Instead of surrendering the policy for no monetary value, the client chose SWAPP, eliminating his premium payments and receiving a \$3.34 million policy for estate planning purposes. The advisor received a commission on the SWAPP, a commission on the term conversion and additional referrals.

About Coventry First

Coventry First created the secondary market for life insurance and pioneered the resulting life settlement industry and SWAPP transaction. Fueled by bold ideas, a deep understanding of life insurance, and impeccable ethical standards, Coventry First continues to lead the market by opening new opportunities for consumers and the financial professionals who serve them. In the past two years alone, our efforts have enabled consumers to receive more than \$240 million over cash surrender value for their underperforming life insurance.

In this way, we are changing the way people think about life insurance. We are making it more powerful, more flexible and more valuable.

Simply stated, we are redefining insurance. And it will never be the same.

Next Steps

To learn more about SWAPP, as well as the benefits and responsibilities of the secondary market for life insurance, call 877-836-8300 or visit coventryfirst.com.

This brochure is not intended for consumers.



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