



FIFTH SEASON
FINANCIAL

FLAG PROGRAM

FUNDS FOR **L**IVING AND **G**IVING

A Financial Option For Patients With Advanced
Stage Illnesses And Seniors, With In-Force Life Insurance

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THE MARKET:

Life Expectancy of less than 9 years and / or late stage illness

Fighting a life threatening illness is more expensive than ever

Cancer drug costs have more than doubled in the past decade

On average, cancer patients are 2.5 times more likely to file for bankruptcy

Source: *US News*, "Oncologists Worry About Rising Costs of Cancer Treatment", July 1, 2015



THE CHALLENGE:

Insured is diagnosed with a life-threatening disease

They face financial challenges due to cost of care, career impact, lost income, etc.

They have a limited life expectancy and want to maximize their quality of life

Financial Aid programs generally help with small dollar amounts and tend to only benefit:

- Patients at or near the poverty line
- Patients with specific illnesses and expenses (medications, devices, etc.)

Very little assistance is available for larger, unrestricted funds

**BUT YOUR CLIENTS MAY HAVE AN ASSET
THAT CAN HELP THEM ACCESS FUNDS**



LIFE INSURANCE

Gender: M F

LIFE INSURANCE PATIENT/SENIOR FUNDING OPTIONS:

- Accelerated Death Benefit
- Viatical / Life Settlement
- Retained Death Benefit
- Fifth Season Financial's FLAG (**Funds for Living And Giving**) Program

ACCELERATED DEATH BENEFIT

Description: Some life insurance policies include a living benefit rider that allows an early payment of a percentage of the policy death benefit.

ADVANTAGES

- Insured receives a portion of the death benefit while still living
- Insured has the option of borrowing against the policy

LIMITATIONS

- **Limited availability** – insured often must have a life expectancy of 12 months or less (can be difficult for doctors to confirm)
- **Longer Timetable** – can take months for funds to be approved

VIATICAL / LIFE SETTLEMENT

Description: Third-party investor buys life insurance policy from insured for lump sum payment

ADVANTAGES

- Insured receives taxable lump sum payment in exchange for the sale of their policy
- Buyer makes all future premium payments

LIMITATIONS

- **Proceeds are typically taxable**
- **No Benefit to Heirs**– overall funds to insured and beneficiaries may be significantly lower
- **Longer Timetable**– regulations make transaction more complicated, insured often must wait 6-9 months to receive funds
- **Misalignment of Interest**– many are uncomfortable with the idea of a third party profiting from their death
- **Excessive fees**- excess intermediary cost due to multiple layers of brokers and providers

RETAINED DEATH BENEFIT (RDB)

Description: The sale of a portion of the death benefit of a policy while retaining a fixed amount for the insured

ADVANTAGES

- Insured receives lump sum payment in exchange for the partial sale of their policy
- Insured retains some portion of the death benefit
- Buyer agrees to pay all future premiums

LIMITATIONS

- **Lower upfront payment**– value of immediate payment is reduced
- **Capped Long Term Benefit**– benefits to heirs is reduced, even if insured passes earlier than life expectancy
- **Potential Tax Implications**

FUNDS FOR LIVING AND GIVING PROGRAM

- Structured as a loan secured solely by life insurance death benefit
- Insured can obtain between 10 and 60% of policy death benefit in a lump sum, or as a line of credit (dependent on underwriting)
- Fifth Season assumes all future premium payments
- All costs associated with loan (interest, management fee) paid out of death benefit
 - Insured makes NO OUT-OF-POCKET PAYMENTS
- 90% of loans have surplus funds remaining to pay out to beneficiaries





WHO QUALIFIES FOR FLAG?

- Insured must be diagnosed with an advanced stage illness or have life expectancy (LE) of <7 years
 - For example, Stage III or Stage IV cancers, congestive heart failure, ALS, COPD, advanced diabetes, etc.
- Must have life insurance policy in place for at least 2 years with a U.S.-based life insurance company
- Policies must have death benefit of at least \$75,000
- Policy may be group, individual term, universal, whole life or FEGLI (Federal Employee)

THE FLAG BENEFITS

- **Funds usually remain for beneficiary**
 - To date, approximately 90% of loans have resulted in beneficiary payouts
- **Transaction process is shorter and streamlined**
 - Initial funds can be transferred as quickly as 4-6 weeks after application
- **Funds are generally not taxable**
 - Life settlement sales are typically taxed as income and/or capital gains
- **Flexibility on the amount of the initial loan/draw**
- **No restrictions on how funds are used**







THE FLAG BENEFITS OVER LIFE SETTLEMENTS

- **Alignment of interest between insured and Fifth Season**
 - In a settlement, only the policy buyer benefits if there is an early maturity
- **In-house medical expertise**
 - Fifth Season's in-house medical underwriting expertise in advanced stage illness often results in differentiated views on life expectancy versus the life settlement marketplace
- **Patient retains the option to repay loan at any time**
 - No prepayment penalties

CASE STUDY: POLICY ADVANCE VS SALE COMPARISON

Face Amount: 1,500,000
 Offer Date: 7/31/2015
 FLAG Advance: 550,000
 Life Settlement: 775,000
 AVS LE: 42 Months
 21st LE: 30 Months

Months to Maturity	30 Months	36 Months	42 Months	48 Months	54 Months
<u>FLAG Advance Scenario</u>					
Upfront Cash from Policy Advance to Insured	550,000	550,000	550,000	550,000	550,000
Proceeds to Beneficiary @ Maturity	465,813	358,658	240,176	112,892	-
Total Proceeds Received with FLAG Advance 	1,015,813	908,658	790,176	662,892	550,000
<u>Life Settlement Scenario</u>					
Sale Proceeds to Insured	775,000	775,000	775,000	775,000	775,000
Tax Implications Assuming 20% Tax Rate	155,000	155,000	155,000	155,000	155,000
Net Proceeds to Insured 	620,000	620,000	620,000	620,000	620,000
Advantage to Insured under FLAG Advance	+395,813	+288,658	+170,176	+42,892	(70,000)

Fifth Season Financial does not provide tax advice. Any reference or example of tax consequences in this presentation is hypothetical. All tax matters should be discussed with your professional tax advisor

Intermediary fees may also further affect this analyses

FIFTH SEASON WILL WORK WITH THE ADVISOR / AGENT TO DETERMINE:

- Amount of initial funds to your client depends on several factors
 - Projected life expectancy
 - Net death benefit of policy
 - Policy premiums
 - Type of policy and insurance company
- Compensation for your referral
 - Also dependent on policy specifics
 - Generally comparable to percentages paid to producers on life settlements





RAISE OUR FLAG WHEN APPROPRIATE

- ☑ For clients in need of immediate funds and / or a desire to eliminate life insurance premium payments
- ☑ Don't let your clients lapse or sell their life insurance without discussion and “apples to apples” review of options
- ☑ Our Funds for Living And Giving program is often more beneficial to clients than other available assistance or sale options
- ☑ Fifth Season will compensate advisors/agents for case referrals



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