This disclosure document is mandated by the Arkansas Securities Department.

Life Settlements Disclosure Document I

Read Before You Purchase

We are offering to sell you an investment called a **life settlement contract.** A **life settlement contract** is an agreement for the purchase of the death benefit of a life insurance policy. The individual whose life insurance policy is being sold is called the **insured.**

When the insured dies the investor receives a specific dollar amount that will be greater than the amount paid for the contract.

Some companies sell whole policies to investors, and other sell fractional interests in policies. If you purchase a fractional interest, the remaining fractional interests in the policy will be sold to other investors.

RISKS

1. **The rate of return on your investment cannot be calculated before the insured dies.** The longer the insured lives, the lower the rate of return on your investment will be.

2. **No one can accurately predict the actual life expectancy of an insured.** Some factors that may affect the accuracy of a prediction are:

   The experience and qualifications of the medical personnel making the life expectancy prediction.

   The nature of the insured illness.

   Future breakthrough treatments and cures.

   If the insured has AIDS, the definition of AIDS used by the life settlement company.

3. **You may have to pay money in addition to your initial investment.**

   The insurance company will cancel the policy in which you have invested if periodic premium payments are not made to keep the policy in force. The insurance company **will not pay the death benefit** if the policy is not in force.

   It is likely that a portion of the money you invest will be set aside to pay premiums. However, if the insured lives longer than expected, you may be required to pay **additional** premiums to keep the policy in force.

4. **Being a beneficiary of a policy and not also an owner carries special risks.**

The person who buys a life insurance policy is the owner of the policy and decides who the beneficiaries of the policy will be – this is, who will receive the death benefit when the owner dies. If the owner (now called an **insured**) **s**ell**s** that policy, the investors become the new beneficiaries and therefore are entitled to receive the death benefit when the insured dies. The new **owner** of the policy may be either the investors or the life settlements company.

Only an **owner** of a policy, **not a beneficiary,** has the right to make premium payments directly to the insurance company so that the policy will remain in force.

If the funds that have been set aside to pay premiums run out, you will be dependent on the life settlement company to collect additional premium money from investors and to pay premiums promptly. If that company goes out of business or otherwise fails to collect premiums from investors, you may not be able to pay the premiums yourself if you are only a beneficiary.

5. **Term insurance policies carry special risks.**

A term policy is issued for a specific time period. The insurance company will not pay the death benefit if the insured outlives that time period. If you purchase a term policy, you will be dependent on the life settlements company from which you purchased your life settlement contract to renew the policy when the term expires.

6. **Contestable policies carry special risks.**

The insurance company will not pay the death benefit <u>if:</u>

the insured dies within the contestability period, <u>and</u>

the insurance company has a reason to cancel the policy.

Two examples of a reason that an insurance company might cancel a policy:

The insured did not truthfully answer a question on the policy application.

The policy may also be cancelled if the insured commits suicide within the two-year contestability.

7. **Group policies carry special risks.**

A group policy insures the members of a specific group of people, usually the employees of an employer. The biggest risk for someone who invests in a group policy is that the policy can be terminated by the employer or the insurance company. Although the policy will contain a provision allowing your interest to be converted to an individual policy, there may be limits or restrictions on the right to convert.

Also, the insurance company may charge additional premiums once the policy is converted.

8. Investing IRA money in a life settlement contract carries special risks.

Internal Revenue Code section 408(a)(3) requires that "no part of trust [IRA] funds will be invested in life insurance contracts." This means that the Internal Revenue Service may not allow you the tax benefits of an IRA if you invest in a life settlement contract.

Even if such an investment is allowed, you should carefully consider your age, the life expectancy of the insured, and the difficulty in predicting life expectancy before investing IRA funds in a life settlement contract. Since death benefits are not paid until the insured dies, **you may encounter a problem taking annual distributions from your IRA that are mandatory beginning at age 70 ½.** If the funds are not available for the mandatory distribution, you will be penalized by the IRS.

9. An investment in a life settlement contract is not a liquid investment.

The life settlement company from which you purchase your life settlement contract may provide a performance or fidelity bond, or another similar instrument, with your purchase. The purpose of these instruments is to "guarantee," or "insure," your investment. Ask exactly what is being guaranteed. Also ask the sales person for a copy of the instrument.

If the company issuing the "guarantee" does not have the necessary financial resources to make payments under the "guarantee," you will not receive any benefit from the "guarantee."

You should do a background check on the company issuing the guarantee instrument. Contact the appropriate regulator to verify that the company exists and is in good standing. Obtain a copy of the company's most recent financial statements.

The terms of the contract between the company issuing the "guarantee" and the life settlement company may also affect how valuable, or useful, the 'guarantee' is to you. Ask for a copy of this agreement.

11. You could lose some of the death benefit you have purchased if the insurance company that issued the life insurance policy goes out of business.

Insurance companies are rated based on their financial safety and soundness. A lower rating means that the company is more likely to go out of business.

Each State maintains an insurance guarantee fund for the benefit of policyholders of insurance companies that have gone out of business. The guarantee fund may impose a limit on the amount that can be recovered on each policy.

Also, the payment on your life settlement contract would be delayed if you needed to seek funds from this guarantee fund or from the receivership of the insurance company. This delay would reduce the rate of return on your investment.

12. You should seek legal advice to help you understand the nature of this investment, the terms and conditions of any contract you are asked to sign, and the tax consequences of your decision to invest.

There are many risks and potential risks associated with an investment in a life settlement contract. You should be aware that there may be risks related to this type of investment in addition to those discussed above.

The Arkansas Securities Department is the agency of state government responsible for the licensing of brokerage firms, investment advisers and their employees, the registration of securities and the enforcement of the Arkansas Securities Act. Anyone with questions or concerns about life settlement contracts may contact the Arkansas Securities Department at the address and telephone numbers listed below.

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