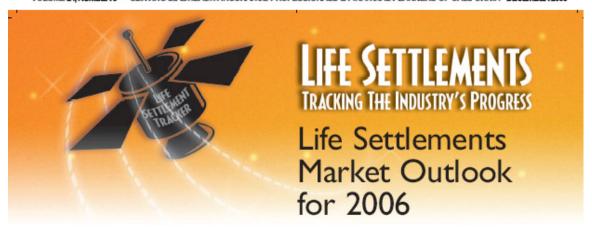
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By Larry Simon

As market estimates predicted, 2005 proved to be a banner growth year for the life settlements industry and for brokers who used life settlements as a financial planning tool to serve their high-net-worth senior clients. With 2006 fast approaching, it's important to consider how the life settlements market will evolve and how brokers and their clients can use life settlements as a tool in developing financial planning strategies.

The Life Settlement Institute released statistics in April 2005, indicating life settlements gave life insurance policy owners more than \$1 billion over cash surrender for their policies. And according to a June 2005 Bernstein Research report, the life settlement market has grown from zero in the mid-1990s to around \$13 billion today.

Bernstein Research projects the market will continue to grow to \$160 billion over the next several years.

Probable Elimination of Estate Taxes

Many financial advisors insist their clients purchase life insurance policies so their heirs will receive their entire estate to help heirs fund substantial tax payments. This strategy may no longer be necessary with changes in estate-tax law. Many life settlement brokers are taking advantage of current estate-tax reduction, helping their clients sell unneeded policies that were purchased to cover tax burdens. As savvy financial planners know, President Bush is committed to reducing or completely eliminating estate taxes by 2010. Of course, this depends on whether Congress votes to enact this legislation. If this legislation passes, the number of seniors looking to cash in their policies via a life settlement will increase substantially.

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Low Interest Rates Have Lowered Policy Values

Low interest rates over the past several years have depleted the portfolios and income of many seniors. They have also led to lower than anticipated cash values in life insurance policies or under performing policies in some cases. Because of this double impact, many seniors who cannot afford the premiums are forced to consider lapsing or surrendering their life insurance policies. Many are choosing to sell the policy via a life settlement in exchange for a lump sum payment in excess of the cash-surrender value. In addition, the amount paid for a policy is determined by several factors, including prevailing interest rates. When interest rates are low, this may affect the policy's crediting rate adversely or the rate at which the policy's value increases. As a result, this may affect the policy pricing adversely.

Regulation Will Bring Credibility and Growth to the Industry

Regulation is another key factor in the growth of the life settlement industry – boosting the confidence of eligible policyholders and investors alike.

The industry is heavily regulated – about 25 states regulate life settlements. This number is expected to grow to about 35 states by the end of 2007. These regulations mandate strict purchasing guidelines and record keeping. Many states also have licensing requirements for companies dealing with sellers in the purchase of policies. In many instances, these licenses require large capital expenditures and extensive operational commitments and it can take years to obtain approvals. In addition, the National Association of Insurance Commissioners and the National Conference of Insurance Legislators adopted model acts relating to life settlements.

Investors are Taking Notice and Funding the Market

Institutional investors continue to drive the life settlement industry, including banks, insurance companies and hedge funds. As this type of transaction becomes more common, the opportunity for additional life settlement business will increase along with institutional investors' appetite for this asset class.

Today, German funds are still in the market, but to a much lesser extent. In the past year, several of the large European banks and other major internationally known companies have been active in the space. In the next few years, the major source of capital will come from term securitization, as investors vie for a piece of what is estimated to be the \$13-billion-a-year, face-value business of life settlements. In particular, hedge fund managers are increasingly viewing life settlements as a stable investment and including it in their portfolios. Consequently, there has been an increase in activity in this asset class by some of the world's largest hedge funds.

Once a hedge fund manager decides to pursue the life settlement market, he or she typically works with the life settlement company to identify policies that will produce the desired business results and develop a portfolio of policies that meet the fund's investors' expectations.

Hedge fund managers invest in life settlements by purchasing a group of life insurance policies to create hedge funds. While returns are difficult to determine from one policy, a group of policies creates returns based on the law of large numbers. Although these returns are not exact, they can be forecasted based on information that the insured provides, including actuarial data and medical information. Investors find this attractive since life settlements are not tied to the stock market and are based on data that is independent of market fluctuations. As life settlement brokers profit, so do investors, who have realized the additional revenue stream that life settlements bring to their portfolios.

Baby Boomers are Entering Retirement, Living Longer

In 2006 and beyond, the huge population of Baby Boomers will enter retirement, fueling the growth of the life settlement industry. U.S. citizens over 65 – the target age group for life settlements – will continue to grow by more than three times the rate of growth for the entire population. As this population enters its retirement years, it is estimated that there will be about \$100 billion in life insurance coverage in the marketplace.

In addition, United States citizens are living longer. In 2002, the National Association of Life Insurance Commissioners revised mortality rates -- the key factor in determining life insurance premiums. The average male life span increased from 70 to 74 and from 77 to 79 for females.

Consequently, they may outlive the need for their life insurance policies. In addition, their present policies may be over- priced. As this segment of the population lives beyond the need to provide for their dependents, they will likely no longer have the same use for the life insurance policy they purchased 20 years ago.

With the increase in the retirement age population, life settlements will continue to grow as a viable means of financial planning. More and more brokers and financial planners will realize they have a fiduciary duty to their clients to disclose the benefits of life settlements to clients with unneeded policies.

Larry Simon is director, chief executive officer and president of Life Settlement Solutions, Inc., based in San Diego, Calif. Life Settlement Solutions and its management has an established, proven industry record, having purchased life insurance policies in excess of \$1 billion aggregate face value to date. For more information regarding Life Settlement Solutions, visit www.lss-corp.com.