



College and University
Retiree Associations
of Canada

Associations de retraités
des universités et collèges
du Canada

BULLETIN

No. 7 June 2015

To: CURAC/ARUCC Member Associations

Earlier this year we received the communication that follows dealing with seniors and their life insurance policies. We thought it to be of sufficient interest to circulate to member associations. We would be interested in any comments that you may wish to make.

Ed Williams, Secretary
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Dear CURAC/ARUCC Officers,

I am touching base with you because I have been studying Canadian groups that might take an interest in advocating for an issue that I believe has important implications for the financial security of Canadian seniors.

In Canada, seniors walk away from, through surrender or lapse, approximately \$7 billion of permanent life insurance every year. These terminated policies represent an excessive windfall for life insurance companies. Ideally, seniors would maintain their policies; however, as the need for protection and their ability to pay premiums changes, they abandon their insurance. Some of these policies are surrendered for cash value (significantly below the real economic value of the policy) but many seniors will allow a policy to self-finance, using up whatever cash value is in the policy, until the policy lapses and they receive nothing.

In the US a large market has evolved to help seniors capture fair value for their life insurance. A life settlement is a transaction whereby a senior sells his or her policy based on the face value of the policy, the ongoing premium obligations and an actuarial estimate of the policyholder's life expectancy. The development of this market has allowed seniors to capture fair value, usually significantly in excess of calculated cash surrender values. Primarily this recognizes that life insurance policies are financial assets (they are sold as such and were recognized as financial assets by the US Supreme Court over 100 years ago).

Unfortunately, in parts of Canada this is not possible. At a time when 8 out of 10 Canadians are retiring with less than \$250k, it makes no sense to limit the ability of seniors to maximize the value of all their assets. In a number of provinces we have insurance laws that have lost relevance and these transactions are not legal. These laws, drafted in the 1930s, are now out of place and are protecting life companies from market forces and competitive bids. The lifeco's benefit from the status quo, are putting up resistance to change and they have adopted very strict policies prohibiting their agents from engaging in, or even discussing, life settlements. Frequently, they threaten to cancel their agents' contracts. In the four Canadian provinces, QC, NB, NS & Sask., where life settlements are legal this stance is unjustifiable. This means that in the permitted provinces the person best positioned to give policyholders appropriate advice - their life agent (who today is often also their financial advisor) - can't. Policyholders, and agents, should be free to consider all options, weighing what is best for them, without limitations that put lifeco

profits ahead of appropriate client advice. We have discussed this topic with many life agents who felt, almost without exception, that giving their clients the best advice was their priority but that they were in an untenable position as they must weigh giving appropriate advice against threats to their livelihood (i.e. the loss of their agency agreements).

As life agents can't educate the public about life settlements we have been doing our best to reach them through other means. We have published articles in La Presse and The Montreal Gazette over the past months, an example of which can be found here:

(<http://montrealgazette.com/business/local-business/personal-finance/life-settlements-provide-seniors-a-way-to-improve-cash-flow><<http://montrealgazette.com/>>).

Our online presence is now bilingual on both our website (www.perisen.com<<http://www.perisen.com/>>) and our Facebook page:

(www.facebook.com/perisenlifeselements<<http://www.facebook.com/perisenlifeselements>>).

We continue to build awareness and gain traction within a growing number of organizations in the four permitted provinces.

I first got involved in this topic purely as a business opportunity but my growing awareness of the issues has led me to be more of an advocate for change. Legislative change in the rest of Canada is a long term goal that we are beginning to pursue (seniors should be upset about this but generally they don't even know that a lapsing policy could have significant value) but educating seniors where life settlements are now legal is a priority. Life settlements are not for everyone but some policyholders could clearly benefit from them and restricting the flow of full disclosure is inappropriate. Professor Lauren Cohen at the Harvard Business School likened being forced to sell your life policy back to the underwriter to only being able to sell your house back to the bank holding the mortgage, a situation sure to result in a below market bid. The Canadian Centre for Elder Law Studies, A division of the British Columbia Law Institute, studied this issue in 2006 in a Paper titled Study Paper on Viatical Settlements (CCELS Report No. 3 BCLI No. 43 May 2006).

After reviewing your association's website I thought that you were well positioned to understand and discuss this issue, perhaps as advocates. Please let me know if you have any questions or interest in learning more.

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