THIS DISCLOSURE IS MANDATED BY THE STATE OF ALASKA TO BE PROVIDED TO AN INVESTOR BEFORE A SALE IS CONSUMMATED

Viatical Settlement Disclosure Document Part A

READ IMMEDIATELY UPON RECEIPT AND BEFORE YOU PURCHASE

We are offering to sell you an investment called a **viatical settlement contract**. A **viatical settlement contract** is an agreement for the purchase of the death benefit of a life insurance policy. Most usually, the policy insures the life of an individual who has been diagnosed with a life expectancy of short duration because of illness. Other policies can be viaticated as well. The individual who owns a life insurance policy that is being sold is called the viator. Often, the viator and the insured are the same.

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 entire policies to investors, and others sell partial interests in policies. If you purchase a partial interest, the remaining interests in the policy will be sold to other investors.

INVESTING IN A VIATICAL SETTLEMENT CONTRACT IS RISKY. BE AWARE THAT THIS TYPE OF INVESTMENT MAY INVOLVE RISKS IN ADDITION TO THOSE EXPLAINED BELOW.

RISKS

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

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 if the insured has a terminal illness.
- The nature of the insured's illness and future breakthrough treatments and cures.
- If the insured has AIDS, the definition of AIDS used by the viatical company.
- The insured's age, occupation, and other factors which can affect longevity if the insured is not terminally ill.

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.

Some of the money you invest probably 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.

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

A person who buys life insurance is the owner of the policy and decides who the beneficiaries of the policy will be – that is, who will receive the death benefit when the owner dies. When the policy is sold as a viatical settlement contract, investors become the new beneficiaries and therefore are entitled to receive the death benefit when the owner (usually the insured) dies.

The new **owner** of the policy may be either the investors themselves or the viatical 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 viatical 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.

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 viatical company to renew the policy when the term expires.

Contestable policies carry special risks.

The insurance company may "**contest**" a policy for a two-year period after its issuance if the company finds a reason to cancel the policy. 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.

One example of a reason that an insurance company might cancel a policy is that 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 period.

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.

Investing IRA money in a viatical 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 viatical 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 viatical 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 70½.** If the funds are not available to take the mandatory distribution, you will be penalized by the IRS.

An investment in a viatical settlement contract is not a liquid investment.

The death benefit on a viatical settlement contract will not be paid until the insured dies, and there is no established secondary market for viatical settlement contracts. This means that you will probably not be able to sell your contract in an emergency to raise money for your immediate needs.

Check any promises of guarantees carefully.

The viatical company from which you purchase your viatical 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 salesperson for a copy of the guarantee 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

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. (Available upon written request to the Administrator.)

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

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 viatical 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 annual rate of return on your investment.

You should seek legal and accounting 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.

<u>Right to Rescind</u>

Under Alaska law, you have the right to rescind—that is, **cancel**—the purchase of this investment by giving written notice of your intention to rescind. To be effective, your written notice of rescission must be postmarked no later than **10 business days** following the later of the date on which you executed and the seller accepted the purchase agreement. You will also be offered a chance to cancel the transaction if an acceptable, suitable policy is not closed by the 90th day after you make the purchase.

You may rescind this transaction by sending notice of your intention to rescind no later than ________________ to:

Name:
Address:

The viatical company o will pay interest at the rate of ______ % APR on the money you give them until the transaction closes.

o No interest will be paid on the money you give the viatical company to purchase a viatical settlement.

The Alaska Securities Division is the agency of state government responsible for the licensing of brokerage firms, investment advisers and their employees, the registration of investment products, and enforcement of the State's securities laws. Anyone with questions or concerns about viaticals or other investments may call the **Alaska Securities Division at (907) 465-2521**. We may be reached by mail at **Alaska Securities Division, P.O. Box 110807, Juneau, Alaska 99811-0807**, and E-Mail at **dbsc@alaska.gov.** You can also visit our website at http://commerce.alaska.gov/bsc for warnings and investor education.