



LISAC

Life Insurance Settlement Association of Canada

## The Case for Life Settlements

*The time is now*

March 17, 2015



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*“Someone is sitting in the shade today because  
someone planted a tree a long time ago.”*

Warren Buffett

## **Preface**

Business leaders, entrepreneurs and advocates understand that there is little difference between obstacles and opportunities, and they know how to turn either into success. This proposal is about such an obstacle and an opportunity.

Canada needs leadership in life settlements, now.\* It is time for a few good people to step forward and plant the seed that will provide millions of Canadians with an opportunity that they do *not* have today. This is about improving the lives of seniors and boomers, and at the same time helping to reduce some of the tax burden on all Canadians. It is good business and a good investment. It is about making life settlements available to Canadians. In 2013, more than 21 million Canadians owned life insurance policies.<sup>1</sup>

Currently, billions of dollars of asset value in life insurance policies remains in the hands of Canadian life insurance companies rather than being accessible in a free market system to the owners of the policies. It is a misallocation of asset value and it creates an economic imbalance that needs to be rectified.

*\*A life settlement pertains to the sale of an unneeded in force life insurance policy for an amount that is more than the policy's cash surrender value but less than its death benefit.*



## Executive summary

- Although over 21 million Canadians own life insurance and 51%<sup>2</sup> of the more than five million seniors have policies, most policy owners cannot receive the maximum *fair market value* for their asset. Currently, in six provinces, policyholders can only receive the cash surrender value from the life insurance company because the life settlement option is not available due to long-standing legislation and regulations.
- Canadian seniors are unaware of the hidden value they could access in their life insurance through life settlements and this ignorance is a serious barrier to getting legislation changed and generating life settlement transactions.
- Hundreds of billions of dollars are at stake based on: the total value of life insurance policies in force in Canada (\$4.06 trillion);<sup>3</sup> the growth of the aging population (over 8.0 million seniors by 2026, up from 13.2% to 21.2% of population<sup>4</sup>); and the estimated value of seniors' policies that could be available for life settlements.
- A study of 9,002 policies showed that by selling their policies in the secondary market, policy owners collectively received \$3.11 billion of value comprised of \$2.83 billion in cash and \$0.28 billion in the form of the expected present value of retained death benefits. This amounts to *more than four times* the \$0.77 billion cash surrender value they would have received had they surrendered their policies to their respective life insurance companies.<sup>5</sup>
- The same study estimated the average expected return to investors in the sample to be 12.5% per annum.<sup>6</sup>
- In the U.S., the Life Insurance Settlement Association (LISA) estimates \$8 billion in life settlements have been paid out in the last three years,<sup>7</sup> and this can be extrapolated



into more than \$1 million a day *not* being available to Canadians due to current regulations and Canadian life insurance companies opposing life settlements.

- Canadian life insurers not only continue lobbying to prevent regulatory change, they are pushing to introduce new, damaging legislation – currently, in Saskatchewan. And they continue to intimidate financial advisors and brokers and misinform them and the media by co-mingling life settlements with viaticals and stranger originated life insurance (STOLI).
- Canadian financial advisors (more than 11,000),<sup>8</sup> brokers and other professional agents (more than 83,000),<sup>9</sup> *on whom the public rely*, must come together and support legislative change that will correct the financial imbalance so that the value of this asset class moves from insurance companies to its rightful owners, and into the economy.
- The not-for-profit, Life Insurance Settlement Association of Canada (paralleling LISA in US), is representing the interests of Canadians owning life insurance, especially seniors, as well as those in the life settlement industry.
- To date, considerable work has been done, led by Leonard Goodman, and now is the time to build on these important first steps and establish a cohesive coalition in support of this professional advocacy organization.
- A three-step plan is being implemented.

Waiting for “eventually” is folly.



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*“An idea will not move to the mainstream simply because it is good; it must be skillfully marketed before it will actually shift people's perceptions and behavior.”*

David Bornstein,  
Author, *How To Change The World*

## **Taking the lead**

The new, not-for-profit association is taking the lead in advancing and developing a well organized and well-regulated Canadian life insurance settlement industry.

In the United States the results are in: The life settlement industry is thriving and everyone is better off because of it. The Life Insurance Settlement Association (LISA) started in the US in 1994, and the time has come to take similar action in Canada. For over two decades LISA has been involved in advocating for policy owners and delivering billions of dollars in additional value, and today LISA members include the industry's largest and most respected life settlement companies, as well as major banks, law firms, accounting firms and over 2,500 professionals.

It starts with a few committed people.

This requires a significant collaborative effort, supported by leadership that focuses on *the higher purpose of making Canada a better society and developing an industry that pursues a long-term investment return for its members*. The cornerstone will be a collective effort through a professional association, which ensures the achievement of mutually beneficial goals and provides independent guidance and oversight for the industry.

*“All successful revolutions are the kicking in of a rotten door.”*

John K. Galbraith

## **The need**

In short, there is no legitimate argument against the value and veracity of a well-regulated life settlement industry. The industry is growing exponentially around the world – except in Canada. It is a “rotten door” that needs to be kicked open for all Canadians.

Most of the people who know a-thing-or-two about life settlements do not need convincing of the benefits, but there are some facts that others need to be aware of. Unfortunately, in Canada, there are only a few facts on life settlements because life settlements are blocked by archaic legislation, which is powerfully supported by the life insurance firms. However, there is no shortage of facts on *the need* for life settlements, and there is no shortage of statistics on the US industry, which can be extrapolated to demonstrate the Canadian potential.

Also, it is important to keep in perspective the long-term, upside potential as it relates to what must be done in Canada. It requires leadership and an upfront investment in the Canadian market. At this stage, there are two primary needs that go hand in hand:

1. In order to access policies and generate life settlements there is a need for awareness and understanding among the public, financial advisors and brokers.
2. The need for new government legislation.

## **A few facts**

*Life settlements are “among the most highly-rated investments available,” as ranked by Franklin Templeton, “... in the same league as government bonds.”*

- The U.S. life insurance industry, according to the [American Council of Life Insurers \(2011\)](#), sold \$2.51 trillion worth of life insurance contracts in 2000 and \$2.81 trillion in 2010. The same source reports that there were \$18.4 trillion worth of life insurance contracts in-force (outstanding) in 2010 in the United States.<sup>10</sup>



- Canadians are one of the most highly insured populations with 21 million having life insurance.<sup>11</sup>
- In the USA, the life settlement industry has grown from \$50 million in 1991 to \$39 billion in 2009 and is estimated to reach \$140 billion in 2015.<sup>12</sup>
- In the USA, the Life Insurance Settlement Association (LISA) states that American policy owners are paid more than \$7 million/day in life settlements.<sup>13</sup>
- “More than quadrupling the value:” A 2014 study, *Testing for adverse selection in life settlements: The secondary market for life insurance policies*, surveyed 9,002 life insurance policies with aggregate death benefits of \$24.14 billion purchased from their original owners between 2001 and 2011.<sup>14</sup> The study states:
  - We found that by selling their policies in the secondary market, policy owners collectively received \$3.11 billion of value comprised of \$2.83 billion in cash and \$0.28 billion in the form of the expected present value of retained death benefits. This amounts to *more than four times* the \$0.77 billion cash surrender value they would have received had they surrendered their policies to their respective life insurance companies.<sup>15</sup>
  - We estimate the average expected return to investors in our sample to be 12.5% per annum.<sup>16</sup>
  - And [US] legislators have been further encouraging the development of the life settlement industry with bills such a first Medicaid life settlement law in Texas, which allows for proceeds of a life settlement to help fund long-term healthcare needs without barring individuals from enrolling in Medicaid. Therefore, life settlements may already have affected the market for life insurance and it has the legislative backing to increase its size in the near future.<sup>17</sup>
- More than 1 out of every 6 dollars of Americans’ long-term savings is in permanent life insurance and retirement annuities.<sup>18</sup> Canadian figures are not available at this time but if, on a per capita basis, the numbers are similar, then the significant funds





Canadians' have invested in permanent life insurance should be available for them to receive *fair market value* through life settlement transactions in a secondary market.

- In Canada, four provinces (New Brunswick, Nova Scotia, Quebec, Saskatchewan) have not (yet) made life settlements illegal and it has been estimated that if only 5% of the policies in these four provinces were transacted, it would total \$40 billion in life settlements.<sup>19</sup> Note: Currently, Saskatchewan, at the behest of the Canadian Life and Health Insurance Association, is proposing in Bill 177 the introduction of regulations preventing life settlements. As of early 2015, it had passed second reading.
- By next year, 1 out of every 5 Canadian adults will be 65 or over. And a decade from now, one-third of Canadian households will be in retirement and will control nearly half of the Canadian financial wallet.<sup>20</sup>
- The aging of the population will accelerate over the next two decades, particularly as baby boomers begin turning 65.<sup>21</sup> Between 2006 and 2026, the number of seniors is projected to increase from 4.3 million to 8.0 million.<sup>22</sup> Currently, there are about 5.6 million Canadian seniors.<sup>23</sup>
- The number of Canadians aged 85 plus will nearly double as well, rising from about 500,000 in 2006 to about 900,000 in 2026.<sup>24</sup>
- Canada is a highly insured country and as of 2006, 51% of Canadians over 65 owned life insurance; and 49% age 55-64.<sup>25</sup> As of 2014, these numbers have increased.
- 80%-90% of life insurance policies are cancelled or lapse, never realizing a full death benefit.<sup>26</sup>



- In response to a Sun Life Financial “unretirement” survey, Kevin Dougherty, president of Sun Life Financial Canada, said in an interview, “We were really quite surprised to see such a high percentage of Canadians thinking of using their homes as a primary income source for retirement. The fact is that many people don’t have access to pension plans at work,” he said. “Many also do not have significant personal savings, making home equity more attractive,” he added. “One needs to really think through whether that strategy will work and whether it will be enough.” In the same report, 30% of respondents were counting on “government plans ...” And only 38% were “satisfied with their retirement savings.”<sup>27</sup> (Note: No mention of life settlements as an alternative financial resource).
- The increase in debt among seniors was the biggest year-over-year of all age groups in the second quarter of 2013, at 6.5%.<sup>28</sup>
- 600,000 or more Canadian seniors are living in poverty.<sup>29</sup>
- 600,000 or more Canadians over age 65 are still in the workforce.<sup>30</sup>
- A 2012, BMO Retirement Institute Report states: “At a time when it is expected that individuals will have accumulated sufficient assets to carry themselves throughout their retirement years, the increase in the bankruptcy rate of Canada’s aging population is of concern. Considering that 56% of pre-retired boomers consider their current level of debt an obstacle to achieving their retirement goals, there is clearly cause for concern. Rising insolvency is indicating stresses in the financial stability of boomer households. A growing number of seniors are finding themselves faced with the prospect of declaring bankruptcy. Boomer’s retirement security is in severe jeopardy.”<sup>31</sup>



- In private-sector Canada, only one in nine workers has a traditional pension plan. Another one in nine have second-best, sort-of pension plans. And nearly eight out of 10 private-sector workers have no pension at all.<sup>32</sup>
- Most workers – a whopping 76 percent – have no pension plan at all, and that number has been steadily rising for years.<sup>33</sup>
- Only 24 per cent of eligible tax filers contributed to an RRSP in 2011, depositing less than five per cent of what they were allowed to contribute. In 2011, just over six million Canadians belonged to a registered pension plan.<sup>34</sup>
- Household personal savings have been falling — from a high of 20.2 per cent in the early 1980s to a low of 2.1 per cent in 2005. Savings have rebounded slightly since then (3.9 per cent in the third quarter of 2012) but are still, on average, "woefully inadequate" to finance a comfortable retirement.<sup>35</sup>
- The average Canadian family saw the cost of health care increase more than twice as much as the cost of shelter did ... some four times as much as food costs rose and more than five times as much as clothing - and the system ranked among the most costly in the developed world.<sup>36</sup>
- According to a 2012 report by the Fraser Institute, the average Canadian family of four shelled out more than \$11,400 last year [2011] in taxes to cover the cost of public health care.<sup>37</sup>
- The Canadian Institute for Health Information estimates total spending on health care in Canada was roughly \$200 billion last year, and in 2010 health spending accounted for 11.4% of GDP.<sup>38</sup>



- There are millions of seniors who are in great need of financial resources during retirement, especially given the unknown high costs of long-term care. We also know that 90% plus of those seniors are unaware their life insurance policy may have value beyond its cash surrender value.<sup>39</sup> The availability of policies for possible settlement by the secondary market is not in question. What is in question is how we create an awareness of a life settlement option among those millions.

### The point?

A few blinding glimpses of the obvious:

1. The growing need for additional financial support for Canadian seniors is real.
2. Approximately half (51%) of Canadian over 65 own life insurance policies that are an asset class that they cannot yet access a fair market value for, which *could be worth at least four times as much as the cash surrender value*. And if, in many cases, there is no cash surrender value the additional proceeds could be many times greater.
3. Six provinces make life settlements illegal and Saskatchewan has a proposed bill that would make it the seventh. LISAC is addressing such policies, policies that are in conflict with the needs of our aging population and out of step with trends, facts and evidence that demonstrates life settlements can play an important role in improving the financial situation of seniors.
4. The growing cost of government healthcare, pensions and long-term care is indisputable and life settlements can help alleviate some of that burden.
5. Life settlements are an established, well-regulated and effective asset class in jurisdictions around the world and they provide substantial benefits for seniors, governments, financial advisors, brokers and investors.
6. In Canada, LISAC must ensure that we do what is right – for Canadian seniors.

The need is great but to date the action has been fragmented and relatively ineffective. That is, until Leonard Goodman published his book, *Why Are Canadian Seniors Worth More Dead Than Alive?*,<sup>40</sup> which has opened up a dialogue at the Ministry level of the Ontario Government and



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started a media campaign. And now, he has established LISAC. He has provided a cornerstone on which much can be built. But nothing much will change unless more leaders and a committed group *accept responsibility* and establish a well-executed, *collective* effort. And that is best achieved through a strong association – LISAC.

*“Never doubt that a small, thoughtful group of people can change the world. Indeed, it is all that ever has.”*  
Margaret Mead, American anthropologist

### **Canada, wake up!**

Those on the life settlement side of the issue have two options:

- 1) Stay on the sidelines and kick at the periphery of the problem and work in isolation, waiting for “eventually;” thereby, letting the status quo drift along while public and advisor ignorance facilitates the financial self-interests of life insurance companies.
- 2) Or get together and kick down the “rotten door” and open up the Canadian market so seniors can receive the fair market value for their asset. And restore a balance in the market for this asset class so that policy owners, governments, financial advisors and investors *all* benefit.

The world has changed on the matter of life settlements and yet Canada’s life insurance companies are acting as if they were operating in a rump-state, as if our leaders were a bunch of luddites. Every nation is struggling to find better ways of taking care of the largest-ever, aging population and the ever-increasing load on healthcare, pensions and the economy and yet, Canadian leadership continues to ignore life settlements? Why?

It is simple. The problem is the life insurance companies. And they aren’t just part of the problem; they *are* the problem. With an 80% lapse ratio, it is clear why they are dead set against life settlements; they are protecting their financial self-interest. It is that narrow. That egregious. Their interests are the antithesis of what is in the best interests of the Canadian public.

### **Watch their feet, not their mouth**

The life insurance companies are not walking the talk. A recent example of the “talk” took place in Ottawa on November 18, 2014. Donald Guloien, Manulife CEO and Chair of the Canadian Life and Health Insurance Association (CLHIA), delivered a speech at CLHIA’s fifth annual “Advocacy Day.”<sup>41</sup>



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A few excerpts:

“We’re deeply involved in ... and committed to ... the health care and financial well-being of Canadians, and Canada’s economy.”

“From our vantage point, it is evident that Canada’s social programs, such as pension plans and universal health care, are under enormous pressure.”

“Canada is well respected in international financial circles and is playing a leadership role in developing sensible regulation. As international financial regulators contemplate new rules governing areas such as capital and accounting, Canada must continue to be at the forefront.”

“We can and want to do more to help Canadians save for retirement.”

This all sounds good but nary a mention of life settlements, even though life settlements are making a significant contribution in many other countries. Canada is not “at the forefront” in life settlements we are bringing up the rear.

In an open letter to Mr. Guloien, dated January 28, 2015,<sup>42</sup> Leonard Goodman, posed several questions pertaining to life settlements as related to the speech by Mr. Guloien. There has been no response, yet.

Canadian seniors deserve more than platitudes. The insurance companies and their associations, instead of spinning their good works as “deeply involved,” “committed,” and “contributing,” should be stepping up and supporting a well-regulated life settlement industry rather than working behind the scenes to oppose them. As mentioned, they are pushing a new bill in Saskatchewan and continue to create confusion in the marketplace by co-mingling life settlements with viaticals and stranger originated life insurance (STOLI); and sending out statements like RBC Insurance did.

RBC Insurance News (Jan. 2015)

New Rules added for 2015, \*Viatical settlements:

Please note the paragraph we have added for viatical settlements under unacceptable business practices: RBC Life Insurance Company considers trafficking in insurance policies (viatical settlements) to be an unacceptable sales practice for all Provinces and Territories.<sup>43</sup>



It is obvious why life insurance companies are doing this ... but governments? Financial advisors? Advocacy groups (i.e., CARP, Advocis)? There appears to be three key reasons:

1. Ignorance – lack of awareness and understanding of life settlements by the public, financial advisors, brokers and elected officials.
2. Protection – most are protecting short-term, self-interests at the expense of long-term benefits to Canadians, the country and their own sustained growth.
3. Intimidation – life insurance companies carry a lot of monetary clout over financial advisors and brokers and spend and/or donate considerable money with advocacy groups like CARP, Advocis, FAIR (Canadian Foundation for Advancement of Investors Rights), and they are actively lobbying. It is the money that walks, not the talk.

Change number one and the rest will follow.





### **David versus Goliath**

Malcolm Gladwell's book, *David and Goliath* (2011), sets out the parallels between the ancient parable and today's world. And nowhere is it more applicable than in the battle life settlements must undertake against the life insurance companies. Also relevant is Wendell Potter's book, *Deadly Spin* (2010), which exposes the insidious lengths the US health insurance industry has gone to in fighting the Affordable Care Act. And there is no reason to expect much different from Canada's life insurers versus Canada's life settlement industry. We face similar obstacles. But as Gladwell points out, "We think of underdog victories as improbable events ... but they aren't at all. Underdogs win all the time."

In this particular fight, Canadian seniors are the underdog and up against an oligarchic giant, and other than Leonard Goodman, few are advocating for their case. LISAC is changing that.

### **Distraction of Goliathic proportions**

Despite insurers' public pronouncements, wrapped in platitudes, it is still just propaganda. But it has been successful. They have worked very hard, for a long time, to make ignorance and confusion work in their favour and Canadian seniors and many financial advisors are none the wiser. The insurers are doing three things well:

- 1) Keeping the public and elected officials uninformed, misinformed and confused.
- 2) Spewing platitudes and spinning negative terminology to an unsuspecting media in order to distract from the real value in life settlements.
- 3) Lobbying to keep harmful, old legislation in place and introducing similar legislation where it does not exist.

LISAC is arming the slingshot.



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## **The goal**

The goal for the Life Insurance Settlement Association of Canada (LISAC) is similar to that of LISA in the United States.

*To educate consumers and advisors about a life settlement as an alternative to allowing an insurance policy to lapse or be surrendered for less than its fair market value, and to advance the highest standards of practice and professional development for the life settlement industry.*

## **Purpose**

The purpose of LISAC includes, but is not limited to:

- a) Helping create an open, transparent and competitive life settlement market and making life settlements available to Canadians by advocating for changes in current legislation and regulations and promoting a responsible, well-regulated industry. And, as necessary, working with governments to contribute to the formulation of the laws and regulations governing the industry.
- b) Ensuring that the public is aware and well informed about life settlements so that they have the option to sell policies for fair market value that are no longer needed, wanted, or whose premiums are no longer affordable.
- c) Being a voice and resource for policy owners and for all service providers in the Canadian life settlement industry.
- d) Advancing the highest standards of conduct for all market participants.

## **Strategy**

LISAC has a three-pronged strategy:

### 1) Seed funding:

To develop research, business plan, budgets, operational requirements, legal, accounting, not-for-profit incorporation and the national public awareness campaign, including the presentation of “the case for life settlements” to the requisite governments, regulatory agencies and private sector participants.



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2) Awareness and representation (three objectives):

- a) Implement the public awareness campaign to inform the public, financial advisors and brokers and influence government decision-making.
- b) Make representation and presentations to governments, regulatory agencies and private sector participants to facilitate the changing of existing regulations and the establishment of a well-regulated industry.
- c) Build LISAC membership

4) Expand the organization's capacity:

Provide a full complement of services for all stakeholders and mirror the breadth and depth of services offered by LISA in the United States.

## **Membership**

Association membership will consist of institutional investors, life settlement providers, life settlement brokers, life settlement services and other professionals. There will be a cross-section of businesses, from large corporations in the financial sector to small professional practices and individuals who provide services to the life insurance settlement industry. There are three categories of membership:

### **1) Founding members**

Building the start up organization will require commitment and support from a number of investors who will form the Board of Directors and provide preliminary funding.

Founding membership is two-fold:

- a) Initially, a one-time founding pledge.
- b) Beginning in year two, an annual membership fee.

The Board will appoint a President and Chief Executive Officer. The CEO will oversee the management of the day-to-day business of the Association. Currently, Leonard Goodman is the acting CEO of LISAC.



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**2) Voting members**

The second level of membership is for non-founding businesses. They will be voting members and pay an annual fee.

**3) Members at large (non-voting)**

The third level of membership is for non-voting associate members.

All members are subject to a rigorous vetting process prior to acceptance, in accordance with LISAC bylaws and code of ethics.

### **Initial steps**

There is much to be done. The first year is crucial in establishing the credibility and strength of LISAC, developing needed awareness, and changing legislation. We are doing it in two phases.

### **Without awareness there is nothing**

As mentioned, without public awareness and understanding among financial advisors there is little opportunity to bring public pressure for legislative change or to generate policies for life settlements. This is not a one-shot deal or sporadic effort, it is a well-coordinated, well-implemented and sustained effort.

### **Phase I (3 months):**

In the first three months, we are carrying out research, preparing the business plan, establishing budgets, creating the public campaign, structuring membership, and executing the requisite legal, accounting and incorporation for the not-for-profit association. Also, we will be making the required representations and presentations of “the case for life settlements” to the governments, regulatory agencies and private sector participants (e.g., Ontario’s Ministry of Finance’s recently announced “expert panel” set up to review the mandate of the Financial Services Commission of Ontario [FSCO], which oversees the Ontario Insurance Act).

We estimate initial costs of: (redacted). Costs and budgets are available to all those participating in this start up phase.

We are seeking seed funding from at least five supporting/founding parties, but we also ask all interested firms and professionals to join us in this most important start up phase – there is strength in numbers. Funds contributed at this stage will be credited against future LISAC membership fees.



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An account has been set up at the Royal Bank.

Royal Bank of Canada  
2346 Yonge St.  
Toronto, ON M4P 2W7  
Contact: Ms. A. French, 416-974-7708  
Account: LISAC c/o Hereliesyourmoney Inc.

For further information, contact Leonard Goodman:  
[leonard@firstfinancialgroup.ca](mailto:leonard@firstfinancialgroup.ca)  
416-368-5351 x226.

At the end of the three months, we will have a business and operational plan that sets out the first three years with growth objectives, strategies, revenues, expenses and programs. The plan will include the strategy and concept for the public awareness campaign.

**Phase II** (12 months):

Key requirements in the first year will be:

1. The implementation of a full slate of marketing, communications and public affairs (lobbying) programs that will include the national awareness campaign.
2. Development of membership, specific programs and ongoing funding.
3. Building membership and future initiatives.

The time is *now*.



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## **In summary**

*“Nothing comes from nothing.”*  
King Lear

It is axiomatic that in order to provide Canadians with access to life settlements, we need to lead rather than follow, stand up rather than sit, act rather than wait. And we need a significant, collective and sustainable effort, which is to be done through a professional association, the Life Insurance Settlement Association of Canada (LISAC).



## Endnotes

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  - <sup>11</sup> Conference for Advanced Life Underwriting, About US, Key Statistics: <https://calu.com/about-calu>
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