

# How life settlement pricing is determined

## — Net present value (NPV) example —

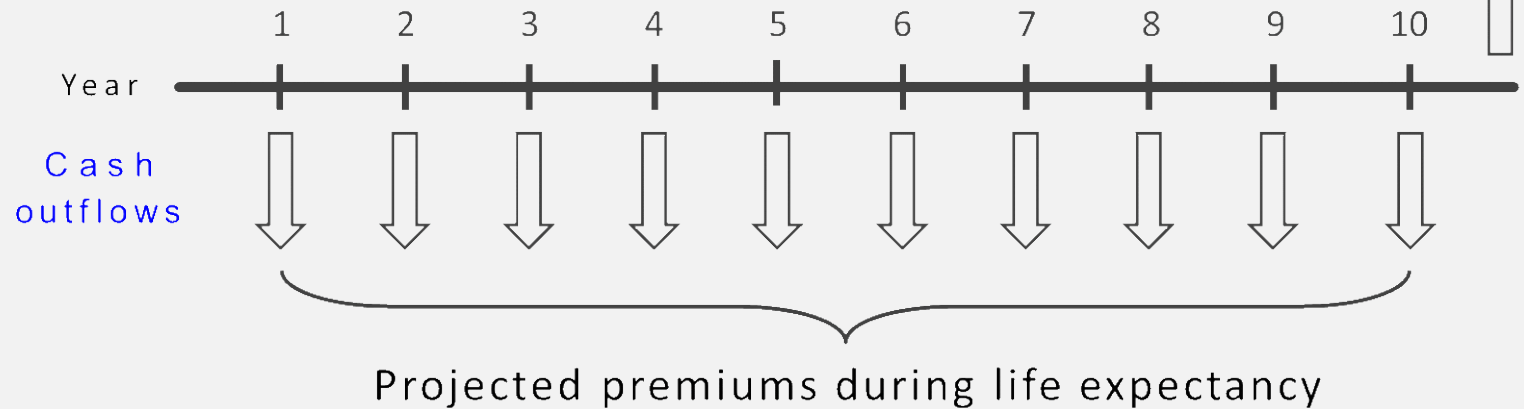
Buyers decide what they're willing to pay for a policy in today's dollars based on what they believe it will cost them to keep the policy in force until they collect the death benefit at some unknown future date. Will the total amount they spend to buy and then fund the policy on a post-sale basis enable them to realize an acceptable investment return factoring the risk they incur?

### Valuation inputs & assumptions

Policy's death benefit	\$1,000,000
Annual premiums	\$25,000 *
Insured's life expectancy	10 years
Buyer's return on investment	12%

$$\begin{aligned}
 \text{NPV} &= \text{PV (premiums)} + \text{PV (death benefit)} \\
 &= -\$142\text{k} + \$322\text{k} \\
 &= \boxed{\$180\text{k gross offer}}
 \end{aligned}$$

Cash inflow   
\$1M death benefit



\* Premiums are assumed to be level (without increases or optimization) for simplicity's sake.