

**Michael J. Quilling, Trustee**  
**Life Partners Position Holder Trust**

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March 20, 2019

**Introduction**

By now I imagine that you have heard that I am the new Trustee of the Life Partners Position Holder Trust. As things move forward, I think you will find that my approach to things is a little different from Mr. Espinosa's. I am not saying his approach was wrong but we are different people and each of us have our own way of doing things. One of my goals is to provide meaningful communications to you in a manner and language that folks can understand and this is one of my first attempts to do so. Another immediate goal is to cut expenses and increase efficiencies designed to maximize the funds I can accumulate to begin making distributions to you (more on that later).

**A little bit about me . . .**

A number of you have called wanting to know some information about me. I am 60 years old and have been practicing law in Dallas, Texas since I was 24. I am the founder of the Quilling, Selander, Lownds, Winslett & Moser, P.C. law firm which has about 70 lawyers. I attended the University of Georgia for both undergraduate school and law school. Throughout my career I have practiced as a trustee and receiver in cases throughout the United States and Canada. I have extensive experience in the life settlement/viatical industry and served as the receiver in the ABC Viaticals case (Dallas), the Secure Investments case (Sacramento), and as special counsel to the receiver in the Trade Partners case (Grand Rapids). My paramount objective, as it has been in every case, is to get you back the most money I can. That is what you want and it's exactly what I want.

**Policies and premiums . . .**

Although there is a lot of information out there regarding the portfolio of policies I am managing, especially in the filings with the SEC, I am not sure how clear it is so I am going to try to summarize some things. We have about 3000 policies (the number changes each month as insureds die so I am using estimates), about 540 of which are life settlements and 2500 are viaticals. 97% of the face value of those policies are in the life settlements (\$1.652 billion including the Continuing Fractional Holder portion). The annual premium costs for those policies was about \$57 million for the Trust in 2018 and the cost increases every year as the insureds get older. In dollars, that means every year the Trust has to come up with about \$57 million just to pay its share of the premiums and that is a lot of money. Where do I get it? From the Trust's share of death benefits when an insured dies and I get the check. In addition to that, I have to collect funds to pay for the expenses of the Trust.

If you are a Continuing Fractional Holder, the most important thing for you is to pay your premiums on time. The invoice you receive is notice that your premium is due sixty days from the invoice date. The second and final notice indicates that your premium is due in thirty days. Late payments result in the Trust incurring legal fees as we deal with disputes arising from the late payments. The timing of your payments is the same every year, so if you know you will be away

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when premiums are due, please make arrangements to still make timely payment. Failure to do so will result in you being defaulted into the Trust.

**Collection of death benefits . . .**

Some of you may not understand all that goes into collecting the death benefits when an insured dies so I want to explain that process. First of all, we have to find out that someone has died and they are spread out all over the United States and foreign countries. We try to monitor where insureds live but in many instances we just don't know where they are and they have no obligation to keep us informed. One of the tools we use are internet search entities which monitor obituary columns around the country daily and that has proven to be fairly successful. Once we discover a death we make sure it is one of our insureds and then seek to obtain a death certificate. That process takes some time which is generally a couple of weeks. Once we have a death certificate in hand we then obtain the correct death benefit forms from the insurance carrier to submit. That can also take some time because insurance carriers do things on their own time frame. Once we have the forms, they are completed and sent to the carrier. After review, the carrier generally lets us know when we can expect to receive the death benefit funds which varies from carrier to carrier but in most instances is about 20 days. Right now the average time it takes us from the date we learn of the death until the date we receive the check is about 45 days, and I am working to try to shorten that time frame. So, when you see a maturity posted on the website it does not mean I actually have the funds. It should be about 45 days later before I actually receive them.

**Financial status and a distribution to you . . .**

In the first two years of the Trust before I took over, after payments of premiums and operating expenses, additional death benefit funds were used to pay off debt which was inherited from the bankruptcy proceedings. During the first two years roughly \$60 million or \$30 million per year was paid to get rid of debt. That process has now been mostly completed and the Trust only owes about \$1 million to the IRS and about \$2 million to the bankruptcy trustee, Tom Moran. Those payments are not due until the end of this year and will be paid at that time.

What all this means is that for the very first time the Trust can begin accumulating death benefit money to be used to make a distribution to you. Instead of paying debt, that money can now go to you. This ASSUMES and is DEPENDENT UPON insureds dying on a regular basis and that the death benefit amounts are enough to pay premiums, costs of the Trust, and having roughly \$30 million per year or more to pay out as a distribution. If things remain at least consistent with the past two years we should have enough money by the end of the year, or early next year, to make a distribution. Some of you may ask well why not just make a distribution of a lesser amount if you don't accumulate \$30 million. The answer to that is that in order to make a meaningful distribution and to make sure the amount of the check you receive is more than the amount of the stamp on the envelope (which neither of us want) it will take about \$30 million to do so. Remember there are roughly 1,237,019,204 units in the Trust (including those who hold through the IRA Partnership) and the net asset value of those units was \$169,006,596 at December 31, 2018. So it takes a lot of money to make a distribution and my best estimate is \$30 million. Once I have that amount accumulated it is my intention to make the first distribution and I hope to keep doing so in the future.

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**Tax forms . . .**

I understand a sore spot for many of you revolves around the tax forms you get from the Trust during the first quarter of each year. I want to explain what you get and why you get it in hope that it may eliminate some of your frustration. If you are a member of the NIRAN group each year so far you have received an annual interest payment on your note. That means during the following January you will be sent a 1099 INT for the amount of interest you received. If you are part of the Continuing Fractional Holder group and one or more of your policies matures, you receive a check and the following January you are sent a 1099 R. The form you are sent is for the gross amount of the funds you received under the policy so if there were liens against your position those funds are netted out of the check you were sent but the 1099 R is for the full amount. No attempt is made to determine or calculate your basis in the investment and that is between you and your tax advisor but again, I assure you the form is the correct form. Many of you have complained that a 1099 R is not the correct form but I can assure you that it is. One of the things for which huge amounts of attorneys' fees were paid during the bankruptcy process was a lengthy tax opinion regarding precisely how the Trust would handle tax reporting issues. That opinion cost a lot of money and we rely upon it and it clearly states that a 1099 R is the correct form and so that is what you are sent. Here is an excerpt of what was in that opinion letter:

The Current Position Holder receives (a) a Fractional Interest representing Beneficial Ownership in a Policy and (b) an Interest in the Position Holder Trust. Upon the maturity of a Policy that is related to the Continuing Fractional Holders' Fractional Interests, the Continuing Fractional Holder will recognize ordinary income equal to their respective Fractional Interests of the death benefits received minus the adjusted basis of their Fractional Interests. Similarly, Continuing Fractional Holders will recognize ordinary income if the amount of CSV (Cash Surrender Value) they receive exceeds the adjusted basis of their Fractional Interest. The PHT will issue Forms 1099-R to the Continuing Fractional Holders reporting the taxable portion of the death benefits and CSV (or the entire distribution if the taxable amount cannot be determined). The Continuing Fractional Holders should then report and pay tax on their taxable portion of the death benefits and CSV. If for federal income tax purposes the Continuing Fractional Holders are not U.S. persons, an amount equal to 30% of the taxable portion of the death benefits and CSV will be withheld and deposited with the IRS.

For those of you who hold units in the Trust, whether directly or through the IRA Partnership, in March of each year you are sent a grantor statement if you hold the units directly or a K-1 if you hold them through the IRA Partnership or both if you hold units both ways. There is no legal requirement that these forms be sent to you by March 15 as some of you may believe. The sending of the forms is dependent upon when the Trust and the IRA Partnership actually file their tax returns and those filing dates can be extended until late in the year. However, we try to file those returns as quickly as we can so that you can get your forms for your individual filing deadline of April 15. The 2018 tax returns for the Trust and the IRA Partnership have just been finalized so your grantor statements and K-1s are on their way to you. Going forward I am going to try to expedite the filing date of these returns so I can get the forms to you even earlier.

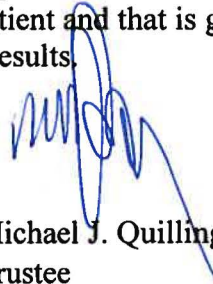
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Unfortunately, from your perspective, the tax returns show that the Trust made money during 2018 (the profits were used to pay debt) and since the Trust does not pay taxes the taxable income is passed through to the unit holders. So expect for your grantor statements and K-1s to show that you made income during 2018 although you didn't get a dime to show for it. I simply can't do anything about it because the tax laws are what they are. In theory once I start making distributions it will all even out, but I understand that doesn't take the sting out of it now. Please consult your tax advisor about this issue. Attached are some forms which should make the process easier.

**Conclusion**

In closing let me say that it is an honor to serve as your Trustee. Rest assured that the members of the Governing Trust Board and I are working hard every day to cut expenses, make sure things run as smoothly and efficiently as possible, and maximize the amount of money that can be returned to you. You have been very patient and that is greatly appreciated. Just give me a little more time and I believe you will see the results.



Michael J. Quilling  
Trustee

## Life Partners Position Holder Trust

### 2018 EXPLANATION OF TAX REPORTING INFORMATION – GIVE TO YOUR TAX PREPARER

The LIFE PARTNERS POSITION HOLDER TRUST (“the PHT” or “the Trust”) was formed pursuant to the Revised Third Amended Joint Chapter 11 Plan of Liquidation confirmed on November 1, 2016, for the benefit of creditors with certain allowed claims. The Trust is a qualifying Liquidating Trust under Treas. Reg. §301.7701-4(d). A liquidating trust is treated as an I.R.C. §671 Grantor Trust with the beneficiaries of the trust treated as if they directly own undivided interests in the trust's assets. Accordingly, in computing his or her tax, a trust beneficiary includes items which are attributable to his/her ownership in the trust. For interests held for part of a year (e.g. inheritance), tax items have been apportioned based on the time held by each beneficiary.

#### General Tax information

I.R.C. §6034A requires that a statement be provided to each Grantor/Beneficiary detailing information to be reported on their tax returns. Pursuant to Treas. Reg. §1.671-4(a), this statement is provided to you, a Trust beneficiary, to inform you of your share of income, deduction, and credit from the Trust for the tax year ended December 31, 2018. **Please provide this letter to your tax advisor and consult with such professionals to determine the federal and state impact, if any, to your personal income tax situation. This information is provided for information purposes and is not tax advice. Please consult your tax advisor about how you should report this information.**

#### Allocation of Income and Expenses

The Trust is a grantor trust for income tax purposes. A grantor trust is disregarded for income tax purposes, and the grantors (the beneficiaries of the trust) are treated as if they directly owned the undivided interests in the trust assets. The beneficiaries report their share of tax items from the Trust on their individual tax returns. This letter represents your share of tax items from the Trust allocated to you in proportion to your beneficiary ownership percentage in the Trust.

#### Types of Income and Deductions Reported

The trust recognizes **ordinary income** on the maturity of the portion of a Life Insurance Policy owned by the Trust – in an amount equal to the excess of the death benefit received by the Trust over the Trust's adjusted basis in the Policy. This portfolio income is reported on line 4 of page 1 of Schedule E for Form 1040. This income is not subject to self-employment tax. Please select ‘8’ for the type of property and input ‘other portfolio income’. The activity is not a passive activity under Code Section 469.

- Your pro rata share of **ordinary dividends** earned by the Trust should be reported on Form 1040, page 2, line 3b and on line 5 of Schedule B of Form 1040, if required. These dividends are not qualified dividend reported on Form 1040, page 2, line 3a.
- Your pro rata share of **interest income** earned by the Trust should be reported on Form 1040, page 2, line 2b and on line 1 of Schedule B of Form 1040, if required.
- **Legal and professional fees** should be deducted on line 10 of page 1 of Schedule E for Form 1040.
- **Investment interest expense** should be deducted on line 13 of page 1 of Schedule E for Form 1040.

Individual and trust beneficiaries should use Form 4952 to compute the amount of deductible investment interest expense. Your share of the Trust's interest expense should be reported on line 1 of Form 4952. The sum of your ordinary portfolio income, your interest income, and your dividend income should be input on line 4a of Form 4952. Your deduction for legal and professional fees should be entered on line 5 of Form 4952. The computations on Form 4952 may limit the amount of interest expense you can deduct on line 13 of page 1 of schedule E.

#### Taxable Income does not Equal Cash Distributions Received

You are required to report your share of taxable items on your tax return even though the net amount of taxable items does not equal the amount of cash, if any, distributed to you during the year. Typically, the amount of cash distributed to you and the amount of net taxable items reported to you will be different from each other every year.

## Life Partners IRA Holder Partnership LLC

### 2018 EXPLANATION OF TAX REPORTING INFORMATION – GIVE TO YOUR TAX PREPARER

The LIFE PARTNERS POSITION HOLDER TRUST (“the PHT” or “the Trust”) was formed pursuant to the Revised Third Amended Joint Chapter 11 Plan of Liquidation confirmed on November 1, 2016, for the benefit of creditors with certain allowed claims. As part of the Plan of Liquidation, IRA accounts that held Allowed Claims and Fractional Positions in policies contributed some or all these assets into Life Partners IRA Holder Partnership LLC (the “IRA Partnership”) in exchange for interests in the LLC.

#### General Tax information

The IRA Partnership receives a grantor statement from the PHT setting forth its pro rata portion of the PHT’s items of income, gain, loss, deduction, and credit. The IRA Partnership issues a Schedule K-1 to each interest holder of the IRA Partnership. The holders of IRA Partnership interests are required to consider their share of the items reported on the IRA Partnership’s K-1 in filling out their individual tax returns.

**Please provide this letter to your tax advisor and consult with such professionals to determine the federal and state impact, if any, to your personal income tax situation. This information is provided for information purposes and is not tax advice. Please consult your tax advisor about how you should report this information.**

#### Interest Holders which are IRA Accounts

IRA accounts are generally exempt from federal income taxation unless there is unrelated business taxable income (“UBTI”). For calendar 2018, the UBTI computed for the IRA Partnership is reported in box 20V of the K-1. As a result, IRA Holders of Interests in the IRA Partnership may have tax reporting obligation for 2018 arising from the 2018 K-1 from the IRA Partnership. **Please consult your tax advisor.**

#### Interest Holders which are not IRA Accounts

#### Types of Income and Deductions Reported

- You should report the **ordinary income** from line 11A of your K-1 on line 4 of page 1 of Schedule E for Form 1040. This income is not subject to self-employment tax. Please select ‘8’ for the type of property and input ‘other portfolio income’. The activity is not a passive activity under Code Section 469.
- You should report the **dividend income** from line 6A of your K-1 on Form 1040, page 2, line 36 and on line 5 of Schedule B of Form 1040, if required. These dividends are not qualified dividends reported on Form 1040, page 2, line 3a.
- You should report the **interest income** from line 5 of your K-1 on Form 1040, page 2, line 2b and on line 1 of Schedule B of Form 1040, if required.
- You should deduct **legal and professional fees** from line 13L of your K-1 on line 10 of page 1 of Schedule E for Form 1040.
- You should deduct **investment interest expense** from line 13H of your K-1 on line 13 of page 1 of Schedule E for Form 1040.

Individual and trust beneficiaries should use Form 4952 to compute the amount of deductible investment interest expense. Your share of the Trust’s interest expense should be reported on line 1 of Form 4952. The sum of your ordinary portfolio income, your interest income, and your dividend income should be input on line 4a of Form 4952. Your deduction for legal and professional fees should be entered on line 5 of Form 4952. The computations on Form 4952 may limit the amount of interest expense you can deduct on line 13 of page 1 of schedule E.

#### Taxable Income does not Equal Cash Distributions Received

You are required to report your share of taxable items on your tax return even though the net amount of taxable items does not equal the amount of cash, if any, distributed to you during the year. Typically, the amount of cash distributed to you and the amount of net taxable items reported to you will be different from each other every year.

**LIFE PARTNERS**  
**Tax Reporting After Effective Date**  
**(IRA Partnership & Position Holder Trust)**

