

# The Secondary Market

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## New Medicaid Law in Texas Recognizes the Value of Life Settlements

Texas dramatically changed its Medicaid eligibility law recently, in a move that is already having a profound effect on the life insurance industry. Traditionally, to enroll in Medicaid, the state-run health insurer of last resort, individuals needed to be nearly destitute. So to qualify, many people spent down or surrendered their assets (including life insurance) in order to become eligible for this needed medical coverage. The new law in Texas, however, enables individuals with a life insurance policy to enter the Medicaid program provided they obtain a life insurance settlement and use the proceeds specifically for long-term care.

Today, Americans are living longer but saving less while healthcare expenses continue to rise. Traditional retirement savings strategies are not working as growing long-term care expenses loom for all of us. We are in a time of crisis, and Texas has delivered a solution that's practical and sensible.

A life settlement enables an individual with a life insurance policy to sell it to a third party in exchange for a percentage of the face amount. These transactions have been around for decades but Texas essentially gave the industry its stamp of approval ~ as long as the policyholder uses the proceeds, which can be as much as 20% of the face value, to pay for long-term care expenses.

The law is significant because it is now being modeled all over the country. Several states including California, Kentucky, Florida, Louisiana, Montana, North Carolina and New Jersey have crafted similar bills to be considered by their legislatures. By next year, many of the largest states could expand the use of life settlements through legislation. The ramifications for the life insurance industry are enormous to say the least.

Insurance companies have made billions in profits from individuals who pay their premiums for decades but then surrender their policy or allow it to lapse. Indeed, they literally bank on the fact that the vast majority of policies will lapse.

Moody's Investor Service recently stated that the Texas law "will pressure life insurers' profitability as life settlements keep in force policies that would otherwise have been surrendered. This will result in life insurers ultimately paying death benefits to investors instead of a much smaller surrender value amount to policyholders."

Bad news for life insurance carriers, good news for everyone else.

"With similar bills in seven other states pending, an expansion of life settlements on a large scale would produce fewer lapses and more covered deaths than life insurers originally priced for, hurting their profitability," the Moody's report adds.

More people are living longer and the number of people requiring medical assistance they can't afford is growing. In order to salvage these programs, mechanisms like the Texas law are needed. It enables people to have access to pools of their own money and lessen their individual impact on state coffers. State Medicaid programs will be saved millions of dollars.

This new model is beneficial for individual policyholders on several levels. For one, policyholders that were not aware of the life settlement option will learn about it because one of the provisions of this new law is that the state must educate and inform policyholders about life settlements. Also, seniors will not have to use whatever long-term care service Medicaid assigns them. They will have the option to choose for themselves. Long-term care is the most significant healthcare expense people will ever have, and more of them will be able to use their own private funds in order to pay for it.

Most people have grown accustomed to the inherent assumption that they own life insurance only for their family and beneficiaries. While the Texas law may not be good news for insurance companies, it opens up a whole new range of possibilities for those facing daunting healthcare costs. It brings a new mark of legitimacy to life settlements while helping those most in need pay for medical care.

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