

Using Life Settlements To Fund LTC Needs

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Many mistakenly assume that long-term care expenses will be covered by existing health insurance.

Many Americans incorrectly think that Medicare, supplemental policies or standard health insurance policies will cover their long-term care expenses — an assumption that often leads to severe financial hardship down the road. Unfortunately, many do not plan ahead financially to provide for their care in the event of frail health. Depending on the long-term care required, costs can easily exceed \$100,000 per year.

The chief consideration is whether or not the funding source can be used only for long-term care costs. Also of concern is the impact on heirs, the rate of asset accumulation, any eligibility requirements and the risk that the funds will be insufficient to meet long-term care needs. Additionally, some programs include financial need or other eligibility requirements.

Most long-term care is ultimately paid for by the recipients or their immediate families. Relying upon individual savings is considered to be “high risk” for financial insufficiency because the fixed sum in a savings account is rapidly depleted. Reliance on savings requires a higher degree of discipline in order to accumulate assets over time and, unfortunately, many Americans have not saved enough for retirement—much less to make provision for long term care.

Relying upon family to provide or finance long-term care provides flexibility,

but also risks financial insufficiency. Not surprisingly, the person receiving the services often feels serious guilt over burdening the family. Ignorance and lack of planning can be a recipe for retirement disaster.

Long-term care insurance is an option that is becoming increasingly popular as life expectancies continue to increase. It does have health-based eligibility requirements, but generally relieves the family from the financial burden of paying for the care. A major drawback is the requirement that premiums be paid over the life of the policy and the possibility that coverage will be insufficient to cover all long-term care costs.

The Department of Health and Human Services (DHHS) says there is a “moderate to low risk of fund insufficiency if the insurer becomes insolvent.”

The cost of long-term care insurance at older ages can be very expensive. Some who have not planned for the financial burden of aging and the cost of care have settled policies and are using the funds from the life settlements to fund their long-term care needs.

A life settlement is the sale of an individual’s life insurance. It provides liquidity to support the costs of long-term care. A recent case shows how

beneficial life settlements can be for financing these needs.

At retirement, Bob’s \$400,000 Group Term policy was too expensive to convert. Instead, he purchased a new \$400,000 Universal Life policy that was needed for only five years as his estate would be set at that point. At the end of this five-year period, Bob approached his agent about surrendering the policy as the cost to carry

the policy to maturity was becoming prohibitive as he had only been paying minimum premiums. The agent suggested exploring a life settlement instead. He received an offer of \$144,000, compared to the minimal Cash Surrender Value of \$1,000.

Bob can now meet both his and his wife’s long-term care needs for the foreseeable future.

The bottom line is everybody wins!

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