Life Settlements Can Help Finance LTC Needs

by Paul J. Higgins, CLU, ChFC, CFP

The dramatic increase in life expectancy was one of the great success stories of the 20th century — the effect of which will be felt increasingly over the next few decades. With these gains, comes the challenge of financing a comfortable lifestyle for the extra years. The challenge will be faced by the individuals who are the beneficiaries of this longevity and the people who advise them and create products to serve the aging senior.

Data on the senior population shows the extraordinary changes that have occurred and are due to accelerate for the next several decades. In 2000, there were 35 million people over 65 in the U.S. — a number that equals 12.4% of the population. By 2030, the number of people 65 and over is expected to double to almost 70 million — a figure equal to 20% of the U.S. population.

This basic demographic data indicates that there is a substantial market for financial products and services for people 65 and over. Additionally, the longevity effect brings significant change in healthcare-related expenditures. Recent data indicates that older people spend 11% of their total expenditures on healthcare, which is more than twice what the general population spends. Those aging seniors, who have begun to experience a decline in health status, are less likely to have wage income as a source of financial support. The services they need to meet their health challenges are often not paid for by Medicare. They are most in need of creative financing tools to make sure that they have the resources to support themselves.

Life settlements are an example of a relatively new financial planning product that can provide substantial consumer benefit based on the new reality of the aging marketplace. Life settlement providers are creating a secondary marketplace that allows a person to turn an illiquid asset — a life insurance policy — into a source of cash. The product may be desirable to senior clients who no longer want or need the policy they bought years ago. Life settlements may also be an important method of raising cash to meet more immediate needs, such as financing long-term care services.

A life settlement entails the transfer of the title to a life insurance policy to a third party life settlement company. The life settlement company pays cash for the right to obtain title to the policy, usually from a senior over 65 with life expectancies from two to 12 years. The company then assumes responsibility to pay the ongoing premiums to the insurance company that issued the

policy, and eventually collects the death benefit. Most life-settlement companies are backed with institutional financing, which means that the individual policies are not being resold to private investors, thus providing an important layer of consumer protection. Unlike viatical settlements, life settlements are not issued to people who are terminally ill with less than two years of life expectancy.

With the advent of institutional financing, the market is starting to reach its potential. A study conducted by the Wharton Financial Institution of the University of Pennsylvania in 2002 estimated that $1.5 billion in face coverage would be sold to life settlement companies by year-end. The study estimated that, in 2002, the purchasers paid $336.3 million to acquire the policies with a total cash value of $93.4 million. Research indicates that the industry is able to offer approximately 3.6 times the cash value of the policies it purchases.

All of the research aside, the benefit of the life settlement can readily be seen by people who are accustomed to advising people 65 and over.

According to Ben Koplan, vice president of Centrelink Insurance and Financial Services based in Woodland Hills, Calif., many clients come to the realization that the insurance they own, as well as the insurance they need, is not suitable or they no longer qualify. "Sometimes, seniors find themselves with a health condition that may preclude them from qualifying as a preferred or even standard risk. Life settlements are a valuable method to help provide the necessary funding required to obtain a more contemporary policy, and in certain situations, as a means to help supplement their dependent-care needs," he said.

Carol Gardner, president of Lifestyle Insurance Services in San Juan Capistrano, Calif. and an expert in long-term care insurance, notes that after one of their recent life settlement training courses, one of the attending agents who specializes in LTC insurance met a week later with a senior couple interested in obtaining a LTC policy. During the discussion, the agent told Carol it was apparent that the wife was in declining health and would likely need long-term care in the near future. The couple asked what they could do to pay for these costly expenses since it was unlikely they could get an LTC policy because of her declining health. The agent discussed alternatives, including life settlements. After consulting with other advisors, the couple decided that a life settlement would be the best option. "The agent was thrilled to be able to help his new clients retain their independence and self respect through a life settlement transaction," said Gardner. ❑

Paul J. Higgins, CLU, ChFC, CFP, is senior vice president of Sales and Marketing for Bethesda, Md.-based life settlement provider Stone Street Financial. For more information, call (877) 777-0635, extension 112 or visit www.StoneStreetFinancial.com.