OVERCOMING AMERICA'S LTC CRISIS WITH LIFE SETTLEMENTS

As The Nation Ages, Seniors Can Turn To Policies For Care

BY CHRIS ORESTIS

Now that we have arrived at the long-awaited generational stage in our society when baby boomers are reaching the age of Medicare eligibility, the need to address the question of who is going to pay for a massive increase in long-term care spending has become paramount.

Exacerbating the growing crisis is the impact of the economy on the availability of private-pay dollars and government spending. For the past two years, we have watched as one of the primary sources of private funds, equity in the homes of seniors, has evaporated. Simultaneously, state and federal budgets feeling the pinch of an eroding tax base and out-of-control spending on health care have started cutting back on Medicare and Medicaid spending.

We are at a crisis point in our nation's history. The cost of LTC continues to rise every year, and seniors (and their families) confronting the realities of what it costs to provide home-based care, assisted living or long-term nursing home care are looking for solutions.

For those families with an LTC insurance policy, a portion of these costs may be covered if they meet the necessary eligibility requirements. And for some families with the last name Gates or Winfrey, they can just cut a check. But what about the families in the vast and often overlooked middle market? Where do they find the resources to cover all or a portion of these costs?

One asset to consider for liquidity is an in-force life insurance policy. A policy owner could look at taking the cash surrender value or a loan against the policy. But for many policy owners, little to no cash value is available. In that case, other alternatives include a life settlement or one of the other emerging options that allow a life insurance policy to be monetized to its fullest potential.

More and more senior care companies around the United States are using this approach to help families overcome a gap in their ability to fund the most appropriate form of senior housing and care. Here are a couple of case studies on how to help families by using life settlements:

Case Study A

A family was running out of money to maintain their 89-year-old father's stay in an Alzheimer's care unit of an assisted-living community. This is the most expensive level of care, and costs can easily approach $100,000 per year. The family did not want to see their father moved and decided they would rather monetize an existing life insurance policy to ensure he would remain in place. He had a $300,000 universal life policy that had been taken out more than 20 years before. The cash value was going to be exhausted and they would have to start making out-of-pocket premium payments by the next quarter or allow it to lapse. They elected to accept a life settlement offer of almost 30 percent of the face value of the policy instead.

The resulting amount would be enough, combined with some other income, to keep him in place for at least a couple more years.

Case Study B

A family wanted to keep their father, who was suffering from cancer, at home, as he wanted to remain in the comfort of his own surroundings and with his loved ones for the remainder of his life. They did not have enough money to afford the costs of care at home, but he owned a $250,000 universal life policy and they all agreed they would liquidate the policy and use the proceeds to keep him in place. There was no cash value in the policy, but they accepted a life settlement offer of 60 percent of the face value. That amount of money would be more than enough to cover the costs of care for their father, and was a much better alternative than allowing the policy to lapse.

ANNUAL COST OF LONG-TERM CARE

Skilled-Nursing Facility (SNF) .. $79,935	Alzheimer's Unit........... $85,045
Assisted-Living Facility (ALF) .. $37,572	Home Health Care........ $43,065

(8 hours per day @ $21/hr. 5 days per week for a year) Source: MetLife Mature Markets Institute 2009

In both of these cases, the families were about to let a policy lapse as they had no idea that they held a legally recognized asset that they had the right to liquidate in the most advantageous manner possible. If these families had not been informed of their options, they would have discarded the policies and been forced to suffer through with insufficient liquidity.

There has been much debate about the good and bad of life settlements, but in these and many other cases, liquidating a life insurance policy to address the immediacy of a health care funding crisis made all the sense in the world. Every major life insurance-related entity, including ACLI, NAIC and NCOIL, are on the record stating that there is a valid and important place in the market for a life insurance policy established under true insurable interest to be monetized and the proceeds then used for the best interests of the insured.

Using a life insurance policy to cover a financial shortfall, thereby allowing someone to secure the best possible housing and/or long-term care, is the most obvious choice. INN

Chris Orestis, president and founder of Life Care Funding Group, is a 15-year veteran of both the insurance and long term care industries. He also spent the several years representing the health and life insurance industry as vice president of the Health Insurance Association of America (HIAA) and senior vice president for the American Council of Life Insurers (ACLI). He can be reached at 888-670-7773 or chris@lifecarefunding.com.