Alternative pay plan

Consumers use life settlement strategies to fund long-term care, an option providers may see more of in the coming months

By Chris Orestis

AMID AN UNCERTAIN ECONOMY AND SLOW HOUSING MARKET, MORE CONSUMERS HAVE BEGUN LOOKING AT ALTERNATIVE WAYS OF GENERATING CASH FOR THEIR CRITICAL NEEDS, INCLUDING LONG-TERM CARE.

Many seniors and their family members have kept to more traditional strategies—including insurance policies and capital generated from real estate and other investments—and it's quite likely that most will continue with these strategies.

However, there is another option out there for those who need the alternative, and senior living companies can be prepared to answer questions should residents or prospects inquire about life settlement funding.

Last Resort or Legitimate Plan

Life settlement refers to the sale of a life insurance policy by the policy holder, while still alive, to an institutional investor that will pay more for the policy than the cash "surrender" value. The institutional investor will then carry the policy as an investment for the remaining life span of the policy owner.

Life insurance values are guaranteed and disconnected from the economy so there is no fluctuation. Major players on Wall Street (Morgan, Chase, Goldman, UBS, Deutsch Bank, AIG, etc.), as well as major hedge funds and global financial institutions, are now buying policies on a mass scale. Just last summer, *Business Week* reported that "Wall Street sees huge profits in buying policies, throwing them into a pool, dividing the pool into bonds and selling the bonds to pension funds, college endowments, and other professional investors. If the market develops as Wall Street expects, ordinary mutual funds will soon be able to get in on the action, too."

Life settlements also offer a competitive outlet to liquidate a life insurance policy or to raise cash in a time of immediate crisis. However, life insurance companies have concerns about the life settlement market. A significant percentage of the insurance industry's profitability comes from collecting premium payments on policies that are either eventually abandoned or surrendered for pennies compared to their total value. Insurers are also concerned that the growth of life settlements could be at the expense of the long-term care insurance market. Plus, companies are concerned about their bottom line when policies no longer lapse or are converted for their "surrender" cash value.

During a panel session at a recent insurance industry conference, organizational leaders chimed in on the legitimacy of life settlements. Stuart Reese, chairman, president, and CEO of MassMutual Life Insurance Company, said that if a policy is purchased with protection in mind and is no longer needed after a period of time, then a contract holder does have property rights and "there is a legitimate life settlement business which is consis-

Fast Forward

- Life settlement can be a simple way for seniors to raise funds for long-term care—however, it is not without controversies that providers should understand.
- Life insurance companies are wary of the life settlement strategy because cash "surrender" values are typically significantly less than the total value of the life insurance policies.
- Raising funds through life settlement typically takes 30 to 60 days, and no fees apply to the resident or the assisted living community should the money be used for long-term care needs.

tent with the purpose of insurance."

Legally, life insurance policies are treated as personal property and owners have the right to sell them while still alive, so it is important to understand how life settlement works when residents, family members, or prospects inquire about funding alternatives for senior living.

"We have talked to seniors who are a little hesitant," says **Debbie Howard**, divisional vice president with Seattle-based **Emeritus Senior Living**. "Our goal is to support our residents and make it easy for new residents to move in. A life settlement is another way for us to make that possible."

Billions of Dollars in Play

Individuals who are most likely to consider the life settlement alternative have recently encountered a pressing need for long-term care funding options. There may also be some current residents who still own life insurance policies and need help raising funds to pay for additional services or care.

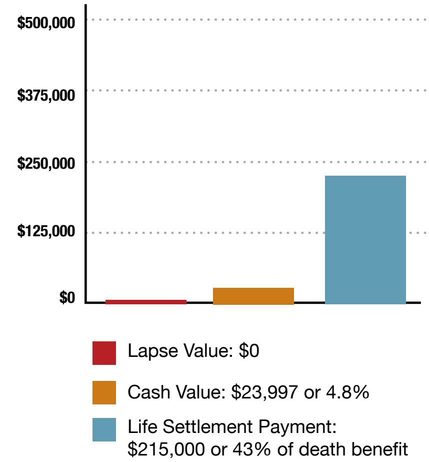
The life settlement process takes 30 to 60 days. Once policy owners sell their life insurance policies, they are no longer responsible for premiums and may use the lump sums however they choose. There are no costs involved for the assisted living community, should the former policy holder decide to use the funds for long-term care, and there are no fees or out-of-pocket expenses for the resident.

With billions of dollars' worth of life insurance policies owned by people over the age of 65, tapping the life settlement alternative may gain momentum in the years to come. Assisted living providers may want to add information about the life settlement alternative to their menu of long-term care funding options. ❏

Chris Orestis is a principal with Life Care Funding Group, a national company with offices in New England and New York. Reach him at 888/670-7773 or chris@lifecarefunding.com.

LIFE SETTLEMENT TRANSACTION CASE STUDY

POLICY SELLER: 84 FEMALE
POLICY VALUE: $500,000



WHO'S WHO

Contact information for members in this article.

› **Debbie Howard**, dhoward@emeritus.com