Robin & Peter on LIFE SETTLEMENTS

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The Long-Term Care Crisis and Life Settlements

It's no secret that financing long-term care is becoming a massive problem for America. Although 70% of Americans over the age of 65 are likely to need long-term care at some point during their lives [www.longtermcare.gov], only about one in ten own long term care insurance which funds only about 4 percent of long-term care expenditures [www.nber.org/aginghealth/winter05/w10989.html]. At the same time, fewer and fewer companies are writing traditional long-term care insurance and the price of long-term care insurance keeps rising.

Medicare and private health insurance provide minimal coverage for long-term care. Medicaid (which is co-funded by the states and the federal government) ultimately pays for the vast majority of long-term care expenses in this country, but to qualify for Medicaid one needs to basically go broke. Not surprisingly, paying for long-term care is Medicaid's single largest expense. And the costs can only grow as the baby boomers age.

It was with this background that The Long-Term Care Innovations Subgroup of the National Association of Insurance Commissioners (NAIC) recently adopted a study which examined the state of long-term care in this country and concluded that one of the viable options to privately fund long-term care costs could be a life settlement. Yes, sometimes money derived from a life insurance policy can provide more benefit while the insured is alive than after death.

This comes as no surprise to us as we've written many times that, although generally a last resort, a life settlement can make a meaningful difference to someone needing to pay for long-term care expenses. Not only can a life settlement provide much needed funds, but a private paying long-term care patient has many more care options and a wider choice of facilities than someone on Medicaid.

What does come as a pleasant surprise to us is the acknowledgement by the NAIC that life settlements can have merit. The NAIC's model life settlement act is generally unfriendly to the life settlement industry and reflects the inexplicable bias against life settlements by some of the large life insurance carriers. Fortunately, recognizing this bias, relatively few states have adopted the NAIC model. To be consistent with what the vast majority of states have adopted and the Long-Term Care Study's conclusion about life settlements, the NAIC should now revisit their model act to make it more workable and less antagonistic towards life settlements.

Producers are frequently asked by clients to shop for long term care insurance only after the client's health has deteriorated and they no longer qualify. Such a client could be a potential prospect for a life settlement in the future. Consistent with the NAIC's study, when a client is rejected for long term care insurance, a producer should apprise the client that a life settlement could be an option to fund long-term care if the need arises.

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