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# Alternative Asset Based Funding For Long Term Care: Long Term Care Life Settlements

**L**ong term care life settlements first emerged in the insurance secondary market 15 years ago as an offshoot of traditional life settlements. An overlooked asset owned by millions of seniors came into focus by care providers, political bodies, Medicaid departments, advisors, and policy owners as the realization that life insurance policies are personal property of the owner—but millions of dollars' worth was being abandoned by seniors every year.

Typically, the owner of a life insurance policy experiencing the loss of two or more activities of daily living (ADLs)

will be confronted with the choice of surrendering or lapsing a life insurance policy if they no longer need or can no longer afford to keep their policy in force. As an alternative to abandoning their policy after years of making premium payments, they can elect to pursue the sale of their policy through a life settlement and then could use the funds in a tax-advantaged manner towards long term care needs depending on their medical condition.

## **Long Term Care Life Settlements**

The long term care life settlement is designed specifically for people who

own a life insurance policy and need funding resources for senior living and long term care support and services. It enables life insurance policy holders in need of senior living and long term care resources to sell their life insurance policy to a third-party buyer for cash that is placed into a long term care benefit account. The benefit account protects the capital and is used to make automatic monthly payments toward senior living and long term care services.

Funds provided from the long term care life settlement are tax free for those diagnosed chronically ill (two or more ADL impairments).

### Long Term Care Benefit Account

The long term care benefit account is a no-cost, non-interest-bearing account held with a federally chartered FDIC insured bank. Similar to a health savings account (HSA), there are no waiting periods or claims to file to access the capital. The account is ready to start making payments toward care immediately upon funding by the long term care life settlement.

The account is flexible so payments can start at a designated amount, for any form of care, and can be adjusted as needed to meet changing care requirements. If the insured passes away before the funds in the account are utilized, the remaining balance will transfer to the named account beneficiaries tax-free.<sup>1</sup>

Any form of medical or long term care can be covered by the long term care benefit account, such as:

- In-Home Care
- Assisted Living
- Skilled Nursing Care
- Memory Care
- Nursing Home
- Hospice

Payments are made automatically on behalf of the insured directly to the health care provider, and the funds

can't be removed from the benefit account until death, ensuring guaranteed payment.

The policy transaction is specifically designed to conform to the secondary market regulations that govern life settlements, and the benefit account is administered specifically to be a Medicaid qualified spend down of the asset proceeds. By obtaining the fair market value for the life policy, and then at the direction of the policy owner putting the funds into an irrevocable FDIC insured bank account which can only be administered third-party to pay for qualified long term care services, the long term care benefit account is a regulated financial transaction, and it's a Medicaid qualified financial vehicle to help cover the costs of long term care.

### Medicaid Spend Down

Account funds paid towards medical expenses and long term care are recognized as a Medicaid qualified spend down. This means that the person benefiting from the account will be private pay for as long as there are funds in the account but, once the account has been depleted, they can make an immediate transition to Medicaid.

Long term care benefit accounts also qualify to be used with the VA Aid & Attendance Benefit, a reverse mortgage, or an income annuity.

### Regulatory Endorsements and Bi-Partisan Support in Congress

The National Conference of Insurance Legislators (NCOIL) and the National Association of Insurance Commissioners (NAIC) support the use of life settlements to pay for long term care and have specifically cited the use of a long term care benefit account as an innovative consumer option.

Congress introduced a bi-partisan bill into the House of Representatives to cre-

ate a "Senior Health Planning Account" (SHPA) based on the long term care benefit account, which would allow anyone who executes a life settlement to then shelter the proceeds tax-free in the SHPA exclusively to pay for the use of health and long term care related expenses.

### Long Term Care Life Settlement Case Studies<sup>2</sup>

#### A son helps his mother move into assisted living:

Policy Size: \$100,000

Policy Type:

LTC Benefit Amount: \$35,000

Monthly Payments to Assisted Living facility: \$2,000

Faced with his mother's need for assisted living and a lack of funding to pay for it, Dave contacted us to see if he could tap into his mother's \$100,000 life insurance policy that they were planning to abandon due to an inability to pay. Within 30 days he was able to sell his mother's policy and set up a long term care benefit account with \$2,000 monthly benefit payments that began the day the account was funded.

This enabled Dave to move his mother into her top assisted living community choice where she would live alongside her friends and relatives.

#### Policy owner about to abandon a term policy discovers it's a tax-free way to pay for needed long term care:

Policy Size: \$500,000

Policy Type: Convertible Term

LTC Benefit Account: \$200,000

Monthly Payments for In-Home Care: \$5,000

After a recent six-week rehabilitation stay and declining health, Sarah was faced with a potential need to lapse her \$500,000 term policy due to unaffordability. Her agent contacted us to

evaluate her policy.

Sarah was able to sell her term policy for \$200,000, which was placed into a long term care benefit account that paid \$5,000 in monthly payments for in-home care. We also assisted Sarah in selecting a top homecare company who would ensure she would receive the best possible care—which she could now afford.

**Policy owner rescues policy to pay for assisted living community:**

Policy Size: \$400,000

Policy Type: Universal Life

LTC Benefit Amount: \$175,000

Monthly Payments to Assisted Living Facility: \$4,000

While James was already living in an assisted living facility, he was quickly running out of money to pay for it. After working with the assisted living facility to understand his health needs, we were able to assist James in receiving \$175,000 in tax-free compensation for his \$400,000 universal life policy.

Within 30 days the policy was settled, and the proceeds were placed into a long term care benefit account with \$4,000 automatic monthly payments made directly to the assisted living facility, covering the assisted living costs for the next three years.

**Husband and wife use both life insurance policies to pay for all of their senior care needs together:**

Policy Size: \$600,000 total across two policies

Policy Type: Non-Convertible Term

LTC Benefit Amount: \$175,000

combined

Monthly Payments for In-Home Care: \$7,000 combined

Bill and Julia each owned \$300,000 term life policies on each other. They were beyond the policy conversion deadline and the premiums had become

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too expensive for them to maintain, so they were considering a lapse.

When their agent contacted us, the policies were in grace and within days of lapsing. We worked quickly to assess the policies and determined that they qualify for a long term care life settlement. We paid the premium to reinstate the policies and get them back to an in-force status. We then enabled Bill and Julia to sell both policies for a combined \$175,000. This windfall enabled them to set up a long term care benefit account that would pay for the in-home care they needed for the next three to five years.

**Son helps his mother convert policy and move into assisted living before he deploys for Afghanistan**

Policy Size: \$100,000

Policy Type: Term

LTC Benefit Amount: \$39,000

Monthly Payments to Assisted Living Facility: \$2,100

Doug and his siblings were struggling with how they would pay for the costs of moving their mother into an assisted living community. An added challenge was the fact that Doug would be leaving for Afghanistan within the next 90 days for a tour of duty.

Doug’s mother owned a \$100,000 life insurance policy that was going to lapse if they did not immediately make an expensive premium payment. The family was trying to determine what their options with the policy might be, when the assisted living community suggested that they consider a long term care life settlement to fund a long term

care benefit account.

We assisted Doug and his mother to complete the policy review and settlement process which enabled them to receive \$39,000. Doug moved his mother into the community and payments from the long term care benefit account began immediately.

**Conclusion**

Today’s life settlement is a well-regulated financial transaction providing a number of consumer benefits that in particular can help seniors struggling with the costs of retirement and long term care. In 2020, there were approximately \$4.5 billion of life settlements completed.

There are about 7.5 million long term care insurance policies owned in the United States today. By comparison, there are over 255 million life insurance policies currently in force. Unfortunately, too few policy owners understand this fact and as many as nine out of 10 life insurance policies are in danger of being abandoned before paying out a death benefit. In fact, on an annual basis, seniors own around \$230 billion of life insurance death benefit that could potentially be sold through a life settlement instead of lapsed or surrendered—but the majority of these seniors are unaware of the settlement option as a better alternative for their policy. Millions of seniors own life insurance policies that after years of making premium payments they will lapse or surrender without realizing their policy is actually an asset that has secondary market value.

But should seniors abandon one of their most valuable assets like this? The answer is no. After years of premium payments, they should no sooner abandon their policy than they would abandon their home after years of mortgage payments. Before the owner of a life insurance policy would abandon their asset, they should first look to the life settlement market to find out what the actual resale value of their policy is. Life settlements can pay as much as 10 times any cash surrender value and it is certainly a better option than lapsing a policy after years of premium payment for little to nothing in return.

Rescuing life insurance policies before they are lapsed or surrendered has been an overlooked opportunity for policy owners and most advisors—but that is changing. Every day, people are seeing TV commercials about this option and coming to realize this can be a solution to help them pay for the expensive costs of long term care *at the time that care is needed*. Political leaders are waking up to realize life insurance policies are a massive pool of assets sitting in the hands of seniors who for the most part have no idea the value of what they own. The use of long term care life settlements can delay the need for someone to go onto

Medicaid and save taxpayers millions of dollars every year. As consumers and the entities that are funding the exploding costs of long term care keep seeking new private market solutions to fund these costs, tapping into billions of dollars of life insurance policies through a long term care life settlement before they are needlessly abandoned is an option that continues to grow every year. 🌐

**Footnotes:**

1. For recipients under the estate tax threshold.
2. Names have been changed to protect the identities of policy owners and their families