



Remember assets are assets when funding Long Term Care Insurance

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When a client brings their concerns about paying for long term care insurance (LTCI) -- or for that matter, long term care -- to their financial advisors, it's important to take into account all of the assets at the client's disposal. This includes the obvious ones such as stocks, bonds, mutual funds, and savings accounts, but it should also include illiquid financial assets like life insurance policies, annuities and even legal settlements.

Because of the way many of these products are marketed and subsequently understood by their owners, your clients may be surprised to hear that argument. They may well believe that once purchased, these assets can never be sold again. Increasingly, this is no longer true. There are now emerging secondary markets that provide liquidity options for life insurance policies, annuities and legal settlements.

Take life insurance policies for example. Not only is a secondary market emerging, but it is no longer confined to large policies in excess of \$5 million. Now policies of \$500,000 or less can find buyers. There's even a market for term policies with no cash value.

Another situation often prevails in legal settlements that are paid over time, also known as structured settlements. Frequently, structured settlements are designed by attorneys and financial consultants so that the payment stream to the plaintiff anticipates future needs such as education, medical bills, or important life milestones such as getting married or turning 50. When life takes unexpected twists and turns, however, the payment stream should be made to adapt rather than continuing on a course that is no longer irrelevant.

This was the case with Jim, a client of mine in Texas who was injured on the job in a rail yard during his mid-30s. He won a settlement that would guarantee him payments of \$1,000 per month for life.

After his injury, Jim retrained and found work in hospital administration. Even though his new career did not exacerbate his injury, it was clear that Jim would need long term care along with LTCI to help pay for it. However, his salary and monthly payment would not enable him to comfortably fund a LTCI policy. But rather than do without, Jim sold a portion of his regular settlement payments in exchange for a lump sum of cash, which he used to fund the purchase of a long term care policy that would meet his needs. Said Jim, "It made more sense to take advantage of what the settlement enabled me to do, rather than being confined by it."

Investment annuities also frequently restrict the options of their owners. Here is typical language found in annuity contracts: "The selection of this annuity option is irreversible, unassignable, and non-transferable once the first benefit payment has been cashed or deposited," or "The provisions of this contract do not provide for withdrawal or surrender; there is not cash value."

That was the language my client Carol in Oklahoma City saw when she read her annuity contract. Though she was receiving regular annuity payments, she wanted long term care insurance: If family history was any guide, she would ultimately need nursing home care. But how would she afford it?

Ultimately, she sold a portion of her regular annuity payment for a lump sum of cash, which she used to fund a long term care policy. "When the policy said 'there was no cash value,' I knew something was wrong," Carol said. "I put cash in, and I was getting cash back every month, so I knew the money was there if I needed it -- and I did."

Today, financial advisors can offer their clients a variety of methods to access cash in their assets that just 10 years ago were virtually unknown. But now with vibrant secondary markets emerging, liquidity and options are proliferating.

The sale of financial assets may involve tax consequences. Accordingly, the advice of a competent tax or legal advisor should be sought. No part of this article should be construed as providing legal or tax advice.