Marc Feaster

Financing LTC With Life Insurance

Life settlements can enable an individual to cover the costs of assisted living or skilled nursing care by redeploying the accrued assets of a life insurance policy.

In recent years, two financing strategies—reverse mortgages and life settlements—have emerged as effective tools for increasing occupancy and retention rates for assisted living and skilled nursing facilities by providing liquidity to their current and prospective clientele.

While the two concepts vary in their application, complexity, and familiarity within the target audience, they are similar in that both are premised on an individual gaining liquidity in exchange for a major asset—a home, in the case of reverse mortgages, a life insurance policy, in the case of life settlements. Both will provide the liquidity potential (cash) that individuals may need to enter a facility or remain in a facility on a private-pay basis.

Community Outreach

Increasing competition has induced many providers to conduct "community outreach" programs, whereby facilities host seminars and other events as a means of attracting potential customers. Many of these programs are already introducing reverse mortgages, which have been a viable financing option for some time. It's in the introduction of life settlements that administrators and facilities begin to differentiate themselves from others.

The concept, while still relatively obscure, may be the most effective and powerful way of quickly generating the liquidity that current and prospective customers require.

As financing tools go, few are more common or more frequently considered than life insurance. Billions of consumers around the world have purchased life insurance to provide the financing needed for all types of needs, all of which occur after the insured individual dies. It has only been within the past decade that anyone has considered using life insurance as a financing tool prior to an individual's death, and it is only within the past two years that the long term care profession has begun to introduce the concept to prospective customers.

> The children may prefer to sell the insurance policy rather than the home.

Fueling the growth in life settlements is the fact that many of the world's largest institutional investors are keenly interested in purchasing policies from insurance owners with little or no need for their life insurance, or individuals who have a greater need for a portion of the death benefit now as opposed to after their demise.

In recent years, this transaction has quickly become one of the more popular financial planning tools in the country, with billions of dollars of capital available for the purchase.

It's an unfamiliar concept, but many seniors are beginning to realize that the need for the family protection that life insurance offers is no longer valid. Children are grown and educated, mortgages are paid, and many policy holders now have a greater need for income than family protection. Still, the concept conjures up all kinds of questions when first discussed.

What about the family? Won't they be opposed to the sale of their inheritance? The reality is that when faced with finding ways to finance dad's long term care expense, the children may prefer to sell the life insurance policy rather than selling the family home, where mom probably still lives, or raiding the grandchildren's college fund or other savings. Waiting for the positive impact of the insurance policy is most likely outweighed by the impact of funding the long term care expense from current savings or selling assets that may be difficult to dispose of, such as a home.

Growing Demand

The demand for policies has grown dramatically in recent years as the concept of selling one's policy is growing in popularity. In the past few years, several of the world's largest financing institutions have been aggressively pursuing opportunities in this asset class.

In 2002 policies began being bundled together to create investment vehicles structured like mortgage-backed securities. In late 2005, a mutual fund registered on the London Exchange that uses life settlements as its underlying asset was introduced to European investors. Currently there

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are billions of dollars of capital available every year earmarked for the purchase of life insurance policies.

This concept is equally applicable for an individual seeking to fully fund the long term care expense as it is for the applicant who may fall a bit short of the necessary liquidity. For the provider, the difference between an occupancy rate of 80 percent and a rate of 85 or 90 percent could well be those applicants who fall a bit shy from a liquidity standpoint and are unaware of the potential of a life settlement.

For most customers, the introduction of life settlements—provided during an interview at the facility, in the facility's marketing materials, or as part of a community outreach program—will be the first time they've heard of the concept.

Changed Circumstances

Many providers believe that their applicants probably don't have life insurance anymore, but that's often not true. Individuals seeking long term care at a cost in excess of $5,000 per month, for example, have often obtained a certain level of affluence. In many cases the circumstances that prompted the purchase of the policy have changed, and it's this change that has created an annual market of $200 billion of policies to be sold.

Today, very few people are aware they can sell their life insurance policies, but, with every passing day, the popularity of this concept increases. Two years ago, no securities firms were embracing the concept of life settlements. Now, dozens of the country's largest securities firms are aggressively promoting the concept to their clientele as a means of capturing funds under management.

Two years ago, less than half a dozen insurance companies would permit their agents to introduce life settlements to their clients. Today, however, many life insurance carriers are actively introducing the concept as a way to replace existing nonperforming policies, capture investment funds for annuity products, or simply to generate commissions for their sales force.

Introducing the idea comes without expense, while offering a solution to the problem of lack of liquidity for those seeking assisted living or skilled nursing services. Long term care facilities are starting to embrace life settlements as a cost-free, value-added service for their customers. ■

For More Information

■ For information on life settlements, visit www.viasourcefunding.com.