

# When to Cash In:

## *Viatical Settlements*



If the person you care for is diagnosed with a terminal illness, he or she may want to receive money from a life insurance policy before they die to help cover costs near the end of their life. There are several options available; the most common are accelerated benefits (sometimes also called living benefits) and viatical settlements.

### **Accelerated Benefits**

Accelerated benefits are granted by a life insurance company; they are sometimes sold as part of an original policy and sometimes given as a rider to your existing policy. With accelerated benefits, the policyholder will receive anywhere from 25 to 100 percent of the face value of the policy before death. These benefits often involve specific conditions and requirements; check with the life insurance company to find out about what it offers and under what conditions. Sometimes companies will add a rider to an existing policy for an additional premium. Others offer the rider at no cost until the policyholder decides to use it.

### **Viatical Settlements**

Viatical settlements involve the sale of a life insurance policy to a viatical settlement company; in return, the policyholder gets a lump sum payment. The viatical settlement company may keep the policy or resell it to an investor; upon the policyholder's death the new beneficiary (either the company or a third-party investor) will collect the face value of the policy.



### **Viatical Settlement Eligibility**

Viatical settlement companies have varying rules regarding the life insurance policies that it will buy. Some common requirements of the companies and the people who invest in them include the following:

- The policy has been held for at least two years
- The policy has a large face value
- Current or potential beneficiaries provide a waiver
- The policy is from a large, well-known and financially stable company
- If the policy is from an employer, it can be converted to an individual policy
- The policyholder is terminally ill—with death expected to occur within two years
- The policyholder is willing to release all medical records to the company

### **Financial Considerations**

With a viatical settlement, the policyholder may be required to pay a federal capital gains tax on the dif-

ference between the lump-sum payment and the amount that has been paid in premiums. Some states also require state tax on viatical settlements. Consult with an accountant or tax attorney to clarify any tax implications of a viatical settlement. A viatical settlement can also be counted as income, and it therefore may affect the policyholder's eligibility for Medicaid.

### **Choosing a Viatical Settlement Company**

After the decision has been made to get a viatical settlement, help the person you care for to choose a viatical settlement company carefully. Here are some tips that can help you to make this decision:

- Compare offers of several companies, ideally three to seven.
- Check with state insurance department to verify the company or broker is licensed.
- Don't be pressured to make a quick decision.
- Confirm that the company is financially sound.
- Check with your state attorney general's office for complaints against the company