FPA FINANCIAL PLANNING PERSPECTIVES

Are Accelerated Death Benefits a Good Backstop for Uninsured Health Care Costs?

At one point, the buzzword was "viatical settlements," a practice of selling one's active life insurance policy to a company that would pay the insured the estimated present value of the death benefit so uninsured healthcare costs and related expenses could be paid. Such settlements grew in popularity during the 1980s AIDS crisis, when insured individuals, mostly young men at the time, desperately needed funds for what was at the time an almost guaranteed death sentence. That business eventually attracted some unscrupulous dealers.

Today, with healthcare costs rising with the number of uninsured Americans from all walks of life, the new buzzword is "accelerated death benefits" – riders on life insurance policies that allow an individual who is terminally ill or facing significant long-term care costs to draw down a portion of the death benefit to pay for those expenses.

It's a tantalizing option for people who fear their own personal health insurance won't pay for health care costs in their old age, but it's worth studying these riders and whether there are better options to cover the cost of care. A Certified Financial Planner™ professional can help you review the options that fit you best. Here are some basics:

An accelerated death benefit is an extra: If you're buying life insurance, an accelerated death benefit is an extra feature you buy on that coverage – it's not included. It will definitely raise the cost of your life insurance.

What commonly triggers an accelerated death benefit? On most policies that feature this rider, these four situations will commonly trigger the payment of at least a portion of the death benefit:

1. The diagnosis of a terminal, chronic or specific physical illness where death is likely within a set period of time;
2. The diagnosis of certain catastrophic illnesses requiring extraordinary medical treatment;
3. Permanent nursing home confinement.

Most riders are activated by a catastrophic disease such as heart attack, stroke, coronary artery bypass surgery, kidney failure, or life-threatening cancer. It's particularly rare for this coverage to pay for an organ transplant, AIDS or paraplegia. It's particularly important to check on what's *not* covered.

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Wouldn't long-term care insurance be a better investment? Possibly. No one can know what their afflictions might be 10, 20 or 30 years from now, but a discussion with one's doctor, a financial planner, and maybe a look back at family health history can be a worthwhile exercise in thinking about what total healthcare costs can be and whether a long-term care insurance policy (optimally bought as close to the age of 50 as possible) can provide more financial security.

What are the tax issues? Since life insurance proceeds are generally not subject to tax for beneficiaries, accelerated death benefits aren't either – but it pays to check with a tax professional to see if this is the case for you.

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