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Tapping Life Insurance

If you provide care for a loved one who's having difficulty meeting medical or other expenses, his or her life insurance policy can be a source of much-needed assistance. While there are several ways to tap into this financial resource, it's important to understand the risks-as well as the benefits-before taking action.

Living Benefits

Also called advance or accelerated benefits, living benefits are proceeds from life insurance policies paid to policyholders before they die. Companies generally offer 25-100 percent of the death benefit as early payment, but policyholders can collect only under specific circumstances. The amount and method of payment vary with each policy.

Call the insurance company's Claims Department to find out about alternatives. Ask whether the policy allows for accelerated benefits or loans, and find out how much these will cost. Some insurers add accelerated benefits to policies for an additional premium. Others may charge a fee when the option is exercised. In most cases, the insurer will reduce the amount advanced before death to compensate for the interest it loses on early payout. There may also be a service charge.

Viatical Settlements

Viatical settlements involve the sale of life insurance policies to viatical settlement companies-businesses that offer terminally ill people a percentage of a policy's face value. The viatical settlement company then becomes the beneficiary, pays the premiums, and collects benefits after the original policyholder dies. Each viatical settlement company sets its own rules, but there are guidelines that most follow when buying life insurance policies.

- In general, the policy must be at least two years old.
- The current beneficiary will have to sign a release or a waiver.
- The original policyholder must be terminally ill. Many companies require a life expectancy of two years or less.
- The viatical settlement provider may want access to relevant medical records.
- The company issuing the policy must be financially sound.

Points to Consider

Decisions affecting life insurance benefits can have a profound financial and emotional impact on dependents, friends, and caregivers. Before helping a loved one make changes to a policy, talk to someone whose advice you can count on—a lawyer, accountant, or financial planner. Make sure everyone involved fully understands the implications before making any firm decisions.

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