

Getting Cash From a Life Insurance Policy If You Are Terminally Ill

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Unfortunately, a diagnosis of a terminal illness often comes with many expenses. If you need money to pay for your medical care or comfort, you may be able to use your life insurance policy to get some immediate cash. "Viatical settlements" allow terminally ill individuals to sell their life insurance policies. Alternatively, some insurance companies allow you to receive an accelerated death benefit.

A viatical settlement is similar to a life settlement, but it is designed for individuals that are terminally ill. You sell your policy to a company, which then collects the death benefit when you die. Most companies require that you have owned your policy for at least two years, your beneficiaries sign a release or waiver, you have a life expectancy of anywhere from two to four years (depending on the company), and you allow the company access to your medical records.

A company will usually pay more than the cash surrender value, but less than the death benefit, although the exact price depends on a number of factors. In determining price, companies look at your life expectancy, how long you have had the policy, and the face value of the policy, among other things.

Rather than selling your policy, some insurance companies allow you to collect a portion of your death benefit before you die. This is called an accelerated death benefit. This option may be included as part of your policy or you may have to pay extra for it.

Accelerated death benefits are paid under certain circumstances, usually the onset of a terminal illness, the need for long-term care, or the diagnosis of a specified medical condition. The amount you can receive may be capped and you may be able to receive either a lump sum or monthly payments. Any remaining amount will go to your beneficiaries when you die.

Both viatical settlements and accelerated death benefits could have tax consequences and affect Medicaid planning. Before taking either option, you should consult with a qualified elder attorney.