Life Insurance Policies for Elderly Relatives: To Sell or Not to Sell?

As we continue to live increasingly longer lives, countless grown children have taken on the responsibility of caring for their elderly parents. Sometimes, this job includes much more than just physical and mental support вЂ" it often requires these grown children to take over their parents' finances too.

If you are caring for an ailing elderly parent and discover heaps of their money is being dumped into a life insurance policy, what should you do?

If your parent is dealing with a major health care crisis and facing hefty medical bills, this may be the first expense you look to cut. But if your parent has had the policy for 20 years or so, they may have paid a considerable amount of money into it. Is it worth it to continue paying?

If you ever find yourself in this quandary, you have a few different options. These tips may help you decide how to handle an elderly parent's life insurance policy.

Weigh your options

If you decide the policy is simply not necessary and you want to get rid of it (along with the monthly premiums), you have three choices:

1. Let the policy lapse

Many life insurance policyholders decide they simply can't afford to keep paying the ever-increasing monthly premiums on the policy. They'll just stop paying the premiums and allow the policy to lapse, or they'll cash it out for a modest payout.

However, the insurance company wins when you let a policy lapse. They profit greatly from policy lapses because they don't have to pay you the death benefit вЂ" and they get to keep most, if not all, of the payments you've made on the policy over the years. Therefore, this probably isn't your best choice.

2. Sell the policy back to the insurer

In some cases, you can sell the policy back to the insurer for what's called an accelerated benefit. However, you can only do this if the policy owner is expected to live for no more than 12 months.

In an accelerated benefit transaction, you'll receive a little less than the actual death payout. Typically, both the insurer and the insured win in this situation.

The policyholder gets the immediate money needed to cover medical expenses and gets rid of the monthly premium payment, and the insurance carrier doesn't have to pay out as much as it would at the end of the policy owner's life.

3. Settle it with a life settlement

In a life settlement, you sell your life insurance policy to an investor. Although you do not receive the entire value of what your death benefits would have been worth, you receive a share of the policy's face value. This gives you the money you need to cover immediate expenses.

Once the investor or life settlement company buys your life insurance policy, they become the beneficiary of the policy and take over payments. Therefore, you get the cash you need now and no longer have to pay the monthly premiums.

However, every life settlement is different. The amount you receive from the settlement depends on the life expectancy of the insured.

Most settlements assume a maximum life expectancy of 17 years, and this translates into the insured receiving anywhere between 18% and 27% of the policy's face value.

On the other hand, policyholders who are only expected to live for a few years could receive up to 50% of the face value. Therefore, it's important to do your homework before settling for a life settlement.

If you are considering this route, please call us first. We can help you find a reliable settlement company and figure out any potential tax penalties.

*This material was created by Insurance Newsletters and authorized for use by Brown & Stromecki Agency

###