Life Insurance Settlement Association

H.R. 5958, The "Senior Health Planning Account Act"

Using Underutilized Life Insurance Assets to Plan for Health Care Costs

H.R. 5958, the "Senior Health Planning Account Act", introduced by Rep. Brian Higgins and Rep. Gregory Steube, would help policyowners use life insurance assets they already own, but from which they often realize no benefit, to plan for health care costs.

The need to better utilize life insurance assets. Nine out of ten individual life insurance policies terminate without paying a death benefit. In 2018, 7.7 million policies, with an aggregate face amount of $570 billion, lapsed, for which policyowners received *nothing*. Moreover, that lapse rate is 40 percent higher than just 5 years earlier. An additional 1.5 million policies, with face amounts totaling $133 billion, were turned over to the issuing insurer for a contractual cash surrender value. By contrast, just $57 billion was paid in death benefits on individual life insurance policies in 2018.

Life Settlements. Life settlements—the sale of life insurance policies for full market value determined by competing third party purchasers—are a highly regulated financial planning tool that often present a *far* better option than lapse or surrender. In a 2017 report, the National Association of Insurance Commissioners stated, "Policyowners who sell their policies receive a lump sum payment that is generally *four or more times greater* than if they lapsed or surrendered their policy, according to [GAO] government and university studies." (Emphasis added.)

Problems presented by current tax treatment of Life Settlements. Internal Revenue Code section 101(g) *already* provides that no federal tax is imposed upon the proceeds of the sale of a life insurance policy, but *only* if the policyowner *already* is chronically or terminally ill. That limitation impedes prudent planning for major health care costs because that tax treatment is not available until *after* those expenses hit, by which time policies often have lapsed due to escalating premiums and reduced need for life insurance.

The Solution: H.R. 5958: H.R. 5958, The "Senior Health Planning Account Act", would help seniors and other policyowners use underutilized life insurance assets to help plan for medical expenses *without* having to wait until after they are seriously ill. H.R. 5958 would permit policyowners to roll over, without tax, life settlement proceeds into Senior Health Planning Accounts (SHPAs), which may be used *only* for qualified medical expenses. Other distributions would be taxed as ordinary income, *and* subject to a substantial excise tax.

Taxpayer savings and potential tax revenue gains: H.R. 5958 would result in substantial taxpayer savings by using underutilized private assets to pay Medicaid expenses otherwise borne by taxpayers. H.R. 5958 also has the potential to generate substantial additional tax revenues. Life settlements *always* generate more revenue than lapsed policies, which generate no proceeds, taxable or otherwise. Also, life settlements typically produce *much* greater proceeds than policy surrenders. Life settlement proceeds not rolled over into SHPAs would be immediately taxed, and the amounts rolled over would be effectively capped because of severe penalties if SHPAs are excessively funded—both unqualified distributions and amounts remaining upon the account holder's death are subject to income tax, and, for unqualified distributions, excise taxes as well. Also, death benefits paid on purchased policies are *fully taxable*.