



State Insurance
Department

Viatical Settlements

Buying Viaticals as Investments

Before You Decide

Viatical settlements allow life insurance policyholders to sell their policies to investors for an immediate cash benefit. In return, the buyer of the viatical settlement becomes the new owner of the life insurance policy, pays future premiums and collects the death benefit when the insured dies.

At one time, most viatical settlements were from people with a life-threatening illness. Now, individuals who are not facing a health crisis may sell their life insurance policies to get cash.

If you are asked to put your money into this type of investment, it is critical that you understand the risks involved, know how your investment will be used and know what the likely return will be. Contact your state insurance department if you need more information.

Be an Informed Investor

- A viatical settlement is not a liquid investment. You can't "cash in" your principal if you change your mind. There is no return on your investment until the insured dies and the death benefit is paid.
- There is no guaranteed annual rate of return. The rate of return depends on when the insured dies and no one can perfectly predict a person's life expectancy. You should find out the life expectancy of the insured and how that determination was made. Remember that individuals who sell their policies in a viatical settlement may not have a life-threatening illness. They may be selling the policy because they can't afford it or no longer need it.
- You are investing in a life insurance policy and premiums must be paid until the insured dies. Find out who is responsible for paying the premiums. Could *you* ever be responsible for paying the premiums? For example, if the insured lives longer than expected, will you have to pay the premiums? If so, this could decrease your rate of return.

Watch for These Special Risks

- **Group Insurance:** The main risk under an employer provided group policy is that the employer or the insurance company could terminate the group policy. If that happens, the insured may have the right to change to an individual policy but the premium will usually be higher. You will want to ask if there are any special rules about changing from the group policy and who will be responsible for paying any additional premiums.
- **Incontestable Clause:** Insurance companies may refuse to pay death claims for policies less than two years old. In the first two years, the death benefit could be denied for various reasons including suicide or false medical information.
- **Term Insurance:** Term life insurance is issued for a certain number of years. An insurance company won't pay the death benefit if the insured outlives the term of the policy. Find out if it is possible to change the policy to a whole life policy.
- **Retirement Funds:** If you will be using money from retirement funds such as a 401(k), IRA, Keogh, or another qualified retirement plan, check with your tax advisor first to make sure you won't lose any tax advantages.

Questions to Ask

- Is the principal and return on my investment guaranteed?
- How is the return on my investment calculated?
- When is the principal and return on my investment paid?
- What fees or other cost am I required to pay?
- Will I ever be required to pay the premiums on the insurance policy?
- What happens if the insured outlives me?
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Your state insurance department and the National Association of Insurance Commissioners want you to have the facts about viatical settlements before you invest. This pamphlet provides some of that information, but it's only a starting point. Consult your own professional financial advisor, attorney, or accountant to help you decide if this is the most suitable investment for you.

Always Check with Your State

- Your state may have a list of viatical settlement providers and brokers licensed to do business in the state. Make sure yours are on the list.
- Ask for a copy of regulations related to viatical settlements for your financial advisors to review.

Selling a Life Insurance Policy?

If you're interested in selling your life insurance policy, contact your state insurance department *before* you make a decision.

**STATE INSURANCE
DEPARTMENT**
