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Viatical Settlement and Accelerated Death Benefit Law: Helping Terminally, but Not Chronically Ill Patients

Alexander D. Eremia

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INTRODUCTION

When serious illness strikes, financial resources are often drained leaving the sick or their families to deplete their financial resources, scrambling to sell investments, or digging into retirement funds. Even those with health insurance often find their coverage insufficient to pay for all necessary medical expenses. When coupled with the loss of employment, serious illness may destroy the dreams or hopes of many individuals and families. In an effort to ease the financial burdens imposed on the terminally or chronically ill, the Health Insurance Portability and Accountability Act of 1996 (HPAA) was amended.

*Staff, DePaul J. Health Care L., B.S., Biopsychology, University of California, Santa Barbara, 1991; J.D. (Cand.), DePaul University, 1997.

1See Kathryn Sullivan & Joann Canning, Life Benefits from Insurance may be Taxable, 21 TAX’N FOR LAW. 86, 86 (1992) (stating that major medical and hospitalization plans will pay some, but not all, of the medical expenses associated with prolonged hospitalization).

26 U.S.C.A. § 101(g)(4)(A) (1997) (terminally ill individuals are those who are certified by a physician as having an illness or physical condition which can reasonably be expected to result in death in twenty-four months or less after the date of certification).

36 U.S.C.A. § 101(g)(4)(B) (1997) (chronically ill individuals are those described by section 26 U.S.C.A. § 7702B(c)(2) (1997), except that such term shall not include a terminally ill individual as having been certified by a licensed health care practitioner within the preceding twelve month period (i) as being unable to perform (without substantial assistance from another individual) at least two activities of daily living for a period of at least ninety days due to a loss of functional capacity; or (ii) as having a level of disability similar (as determined under regulations prescribed by the Secretary of Health and Human Services) to the level of disability described above; or (iii) requiring substantial supervision to protect such an individual from threats to health and safety due to severe cognitive impairment).

Effective January 1, 1997, certain portions of the HPAA grant terminally or chronically ill individuals with life insurance policies a reprieve from the harshness of their illness by offering a tax-free disbursement of the policy benefits while still living. Although ordinarily reserved for the survivors of the insured, life insurance benefits are often needed by the policyholder to finance current needs. When such benefits are distributed directly by an insurance carrier, they are called Accelerated Death Benefits (ADBs). When a third party regularly engaged in the purchase or assignment of such policies makes the distribution, the distribution is called a "viatical settlement.”

Prior to the enactment of the HPAA, such pre-death distributions were taxed as if they were gross income to the recipient. Thus, other sources of money such as home equity loans or loans from relatives were a more appealing method for obtaining needed funds. As a result of HPAA, industry experts have speculated that tax-free treatment will make of 1995).

6See generally id. (previously such pre-death disbursements were considered gross income and were taxed at ordinary income rates which effectively reduced the total income to the recipient).
7See Wesley S. Caldwell, et al., Innovation and Controversy: Viatical Arrangements and Accelerated Death Benefits, 172-NOV J.I. Law. 39, 39 (Oct./Nov. 1995) (stating that the insured occasionally has a greater need for the policy's benefits than her beneficiaries); see also Sullivan, supra note 1, at 86 (stating that disability income generally is not enough to cover everyday expenses and medical expenses not covered by an employer's policy).
8Herron, supra note 4, at 971; see also Ronald S. Ross, Accelerated Death Benefits Tax Treatment Eased, 23 TAX’N FOR LAW. 229, 229 (1995) (stating that an accelerated death benefit generally allows a life insurance policy holder to receive some or all of the death benefits before death).
9See Caldwell, supra note 7, at 41 n.1 (explaining “viatical” is from the Latin word viaticum, which defined the money and supplies given to a traveler or Roman soldier before a long journey or adventure. Viaticum is also the name of the host given to a communicant during the Roman Catholic sacrament of extreme unction); see also John F. Blake, Life Insurance Proceeds Can be Received Tax Free Prior to Death Under New Prop. Regs, 79 J. TAX’N 156, n.3 (1993).
10See 26 U.S.C.A. § 61(a) (1997) (gross income means all income from whatever source derived.); cf. Ross, supra note 8, at 229 (stating that benefits paid even one minute before death are taxed as gross income, with the exception of the policyowner’s investment in the policy); but see 26 U.S.C.A. § 101(a)(1) (1997) (the proceeds of a life insurance policy are not included as gross income if they are paid by reason of death of the insured).
viatical settlements and ADBs a viable estate-planning tool for the terminally and chronically ill.\textsuperscript{12}

Unfortunately, due to the nature of viatical settlements and ADBs, and the restrictions imposed and the uncertainties caused by HPAA, its intended usefulness is limited. This article summarizes and analyzes the portion of HPAA relating to the tax treatment of ADBs and viatical settlements. It also provides information on the industry and concludes that while there is extreme opportunity for growth in the industry, HPAA will not make ADBs or viatical settlements a viable option for every terminally or chronically ill patient.

\section*{BACKGROUND}

In 1988, viatical settlements and ADBs were virtually non-existent.\textsuperscript{13} In response to the Acquired Immune Deficiency Syndrome (AIDS) epidemic, companies called Viatical Settlement Providers (VSPs) emerged offering AIDS patients pre-death disbursements in exchange for a beneficial interest in the patients' life insurance policies.\textsuperscript{14} Shortly thereafter, many life insurers began offering ADB options to compete with the increasing popularity of viatical settlements.\textsuperscript{15} Although similar in effect, viatical...
settlements and ADBs differ in many respects. These inherent differences and the lack of industry regulation have caused critics of HPAA to complain that it is too easy for VSPs to exploit patients during their most vulnerable moments.\footnote{See Herron, supra note 4, at 968-969 (noting that these people are probably undergoing greater stress than they have ever experienced, and that the unequal bargaining power of viatical settlements is a powerful source of exploitation).}

Many states, however, have recently adopted legislation to regulate viatical settlements, which greatly diminishes the possibility for fraud or abuse.\footnote{At least 20 states currently have some form of legislation regulating the viatical industry (California, Connecticut, District of Columbia, Florida, Illinois, Louisiana, Michigan, Minnesota, Mississippi, New York, North Carolina, North Dakota, Ohio, Oregon, Texas, Utah, Vermont, Virginia, Washington, and Wisconsin) and 11 states currently have viatical regulation legislation pending (Alabama, Arkansas, Delaware, Hawaii, Maine, Massachusetts, Missouri, Montana, New Hampshire, Pennsylvania, and South Carolina) [hereinafter State Legislation].}

Despite the controversy, many terminally ill patients have found ADBs and viatical settlements to be a functional means of acquiring needed cash. As word spreads of these options, practitioners will increasingly be called upon to answer their clients’ questions regarding the sale or assignment of life insurance policies.

Viatical Settlements

Viatical settlements are created when a terminally ill policy holder (Viator) assigns or sells her interest in a life insurance policy to a VSP in exchange for an immediate cash settlement worth less than the face value of the policy.\footnote{Terminally Ill Using Insurance Policies to Enhance Life, SALT LAKE TRIB., Sept. 7, 1997, at B2 (noting that popular actor, Robert Urich, has just become a spokesperson for Utah-based “Lifewise” to share his story of surviving cancer and promote the sale of life insurance policies).}

Upon receipt, the Viator may use the proceeds of the sale to pay medical bills, housing costs, or to do virtually anything she wishes.\footnote{Herron, supra note 4, at 933; see also Shanah D. Glick, Are Viatical Settlements Securities Within the Regulatory Control of the Securities Act of 1933?, 60 U. CHI. L. REV. 957, 964 (1993); see also Berner, supra note 13, at 584 (stating that a viatical settlement is when a terminally ill person (Viator) sells her life insurance policy to a viatical settlement company or an individual purchaser for a cash settlement).}

Once the policy is sold or assigned, the VSP names itself as the
beneficiary of the policy and usually assumes responsibility for paying the policy premiums. Upon the death of the Viator, the VSP collects the entire face value of the policy from the insurance company. In many instances, the VSP will profit from this transaction by collecting the difference between the face value of the policy and the discounted settlement amount, minus the administrative costs. If the discount on the settlement is low enough and the administrative costs are reasonably contained, the profit can exceed 40 percent.

The amount of profit, however, is completely dependent on how long the Viator lives. Since the return is fixed, the annualized rate of return depends on the length of the investment. If the Viator dies before the predicted date, the VSP's profits will be greater than if the Viator dies after the predicted date. If the Viator lives too long beyond the predicted life expectancy, the VSP may incur a net loss because the amount of discount built into the settlement may not be sufficient to cover the continuing premium payments on the policy. Therefore, since the calculation of the disbursement is integrally tied to the prediction of life expectancy, an accurate diagnosis of the terminal illness is necessary to insure a profitable transaction.

Because VSPs effectively wager on and profit from the lives of the terminally ill, some complain that this is a "ghoulish industry" and have

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21See Glick, supra note 19, at 965 (stating that after the purchase of the policy, the buyer steps into the shoes of the former owner and assumes the right to name the beneficiary of the policy).
22Berner, supra note 13, at 584; but see Herron, supra note 4, at 957-958 (explaining that viatical companies do not always need to incur this expense since many insurance companies offer disability waivers for the premium payments. Under such provisions, the insured's employer undertakes responsibility for the policyholder's premium payments in the event that the policyholder becomes disabled or unable to pay the premium. Usually, viatical companies will encourage Viators to secure this waiver before viaticating. As a result, the Viator should receive a larger distribution and the viatical company will not have to take over payment of the premiums and will thus not bear the risk that the Viator will live beyond her life expectancy).
23Herron, supra note 4, at 933.
24See id. at 935 (stating that profits sometimes exceed 40 percent of the face value of a policy); but see id. at 946 (stating that according to the best estimate, viatical settlement companies average 20 percent in profits on any policy).
26Caldwell, supra note 7, at 39.
27Id.
complained that such arrangements are essentially "death futures." Nonetheless, viatical settlements seem to be gaining acceptance; for example, some banks are now offering viatical settlement investment options. By allowing investors to spread the risk of loss among several different Viators, such banks are essentially selling viatical settlement "mutual funds."

Although morbid to some, similar arrangements have been available for many years and liquidating virtually any asset a person owns may create such a death future. Recently, for example, "reverse mortgages" have become a popular way for the elderly to remain in their homes after retirement. Similarly, a seller could enter into a sale-leaseback arrangement or could sell her home subject to a life estate in the property. Alternatively, a buyer could "factor" a seller's "account receivables" to accomplish the goal of cashing out one's assets before death.

Nonetheless, since a VSP's profit margin is wholly related to the life expectancy of the Viator, concern has arisen over the possibilities for fraud and abuse in the industry. Seeking tighter control on the industry, the Securities and Exchange Commission (SEC) recently fought and lost a lengthy battle that sought to classify viatical settlements as securities. Such a classification would cause viatical settlements to fall under the

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28 See Herron, supra note 4, at 936; Nirtaut, supra note 15, at 23; see also Caldwell, supra note 7, at 39 (stating that the detractors of viatical settlements refer to them as death futures).
30 Michelle DeBlasi, Viaticals Breathe New Life in Banks?, BANK INVESTMENT MARKETING, Sept. 1, 1997 (claiming that investors can diversify their investments to reduce the risk of loss by investing in a virtual "mutual fund" of viatical settlements).
31 See Osborn, supra note 13.
32 Celeste M. Hammond, Reverse Mortgages: A Financial Planning Device For The Elderly, 1 ELDER L.J. 75 (1993) (explaining how, under such arrangements, an individual with equity in his/her home is loaned money and may receive advances from a lender with no expectation of repayment until the death of the borrower).
34 Id.
35 Herron, supra note 4, at 935; see also Berner, supra note 13, at 583 (stating that the market was open to abuse by viatical companies who could take advantage of vulnerable victims).
36 SEC, 87 F.3d at 536.
regulatory authority of the SEC. Ruling that profits of the VSP are not related to the work of the VSP, but rather, the death of the Viator, the court concluded that viatical settlements are not securities. Consequently, those investing in viatical settlements will not be afforded the protections granted under the Securities Act of 1933 that were designed to require disclosure of material information and to prevent misrepresentation, deceit, and fraud in the sale of securities.

Acknowledging the need for consumer protection, many state legislatures have enacted legislation to regulate the viatical industry. However, much of the legislation is presently aimed at protecting the Viator, rather than the VSP or investor in viatical settlement products. In addition, the National Association of Insurance Commissioners (NAIC) has created the Viatical Settlements Model Act (Model Act) and the Viatical Settlements Model Regulation (Model Regulation). The NAIC's Model Act emulates California's viatical settlement statute, and the NAIC has expressed its desire that other state legislatures adopt similar provisions. Currently, twenty states have adopted some form of viatical settlement regulations and eleven states are now considering such legislation. These provisions call for the licensing of VSPs, require disclosure of certain information to the Viators, and grant the authority to impose minimum payout standards for viatical settlements.

35 Davis, supra note 37.
39 See Berner, supra note 13, at 586 (stating that several states have responded to concerns over the possibilities for abuse, such as overreaching and undue influence upon vulnerable victims, and that such legislation seeks to protect the Viators).
40 See Osborn, supra note 13, at 474 (concluding that since viatical settlements involved the business of insurance, the National Association of Insurance Commissioners ("NAIC") adopted the Viatical Settlements Model Act and the Viatical Settlements Model Regulation).
49 Id.
50 See id. (stating that several states have adopted insurance laws regulating viatical settlements, many of which seem to be based on the Model Act of the NAIC).
45 See State Legislation, supra note 17.
46 Id.
47 VIATICAL SETTLEMENTS MODEL ACT (National Ass'n of Ins. Comm'rs 1994), reprinted in 4 NATIONAL ASS'N OF INS. COMM'RS, MODEL LAWS, REGULATIONS AND GUIDELINES 697-1 to 697-18, 697-1, §§3, 8, 10(B) (1995) [hereinafter Model Act].
Viatical Settlement Model Act and Model Regulation

Essentially, the Model Act requires viatical settlement agreements to be evidenced by a written contract and for such contracts to be filed with and approved by the appropriate state department of insurance. The Model Act also imposes strict licensing requirements for VSPs and gives the state department of insurance the power to revoke the license after issuance. In addition, VSPs must file annual statements with the department of insurance and allow access to all viatical settlement records upon request.

Before signing a viatical agreement, VSPs are required to disclose the ramifications of selling a life insurance policy to the potential Viators. Among the many required disclosures, VSPs must inform potential Viators of:

1) the alternatives to viation, including but not limited to ADBs;
2) some or all of the proceeds may be taxable and that assistance should be sought from a personal tax advisor;
3) viatical settlements could be subject to claims by creditors;
4) the receipt of the viatical settlement may adversely affect the recipient's eligibility for Medicaid or other government benefits, and thus advice should be sought from the appropriate agencies;
5) the policy owner has a right to rescind the viatical settlement contract within thirty days of execution of the contract or within fifteen days of the receipt of the viatical settlement proceeds, whichever is sooner; and
6) the date the funds will be available to the Viator and the source of those funds.

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48 Osborn, supra note 13, at 484.
49 Id.
50 Id. at 475.
51 Model Act, supra note 47, at 697-1 §7(B) (although the insurance Commissioner may examine the records of the viatical settlement company, the names and individual identification data for all Viators shall be considered private and confidential information and shall not be disclosed by the commissioner, unless required by law).
52 See id. (actually, the disclosure must be made no later than the date the viatical settlement is signed by all parties); but see Herron, supra note 4, at 943 (criticizing the disclosure period as being so late in the viation process that it makes the Viator unlikely to pull out and explore other options).
53 Model Act, supra note 47, at 697-1 §8; see Osborn, supra note 13, at 476-477.
Moreover, before the contract is signed, VSPs must obtain a written statement from a licensed physician certifying the insured's sound mind and lack of undue influence. In addition, the VSP must obtain a witnessed document from the insured that:

1) acknowledges the catastrophic or life-threatening condition of the insured;
2) represents that she fully understands the viatical settlement contract and the ramifications of selling the policy;
3) consents to the viatical settlement contract and professes her free will in entering the agreement; and
4) releases her medical records to the VSP.

Finally, the NAIC Model Act permits the insurance commissioner of each state to promulgate regulations implementing the Model Act and to specifically establish standards of reasonableness for viatical settlement disbursements.

In addition to the requirements set forth by the Model Act, the Model Regulation establishes guidelines governing the minimum amounts to be paid to a Viator. Based on an estimate of the insured's life expectancy, the minimum discount percentages as stated in the Model Regulation are as follows:

1) less than six months to live equals 80 percent;
2) at least six, but less than twelve months to live equals 70 percent;
3) at least twelve, but less than eighteen months to live equals 65 percent;
4) at least eighteen, but less than twenty-four months to live equals 60 percent; and
5) twenty-four months or more to live equals 50 percent.

According to the Model Regulation, these minimum percentages may be reduced by 5 percent if the policy is written by an

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54Model Act, supra note 47, at 697-1 §9(A)(1).
55See Osborn, supra note 13, at 477 (describing the consent and witness requirements for Viators).
56See id. at 478 (describing the authority granted by section 10 of the Model Act to promulgate regulations).
insurance carrier rated less than the highest four categories by A.M. Best, or a comparable rating by another rating agency.\textsuperscript{57}

The Model Regulations also specify numerous licensing requirements for viatical settlement providers and brokers.\textsuperscript{58} Furthermore, the Model Regulation identifies specific information to be included in an annual report to the insurance commissioner, such as the date of viatication, amount disbursed, face values of the policies, and life expectancies for each Viator.\textsuperscript{59} Finally, the Model Regulation imposes strict advertising standards on VSPs that mandate the publication of the average speed of viatication and the average disbursement percentage if the advertisement emphasizes the speed or payment rates of viatication.\textsuperscript{60} However, since the Model Regulations and the Model Act have not been universally adopted, individuals should contact their state insurance commissioner to determine the extent of viatical regulation.

\section*{Viatical Industry Controversy}

Despite the proposed regulations or legislation enacted, opponents have been troubled by the nature of the industry and the potential for abuse.\textsuperscript{61} At least one commentator has suggested that the industry has created the danger of "hit men" being hired to guarantee large profit margins by terminating the insured's life.\textsuperscript{62} In addition, since settlement payouts are

\begin{footnotesize}
\begin{enumerate}
\item National Ass'n of Ins. Comm'rs, 1994-2 NAIC Proc. 549, 573 ($\S$4) [hereinafter "1994-2 NAIC Proc. 549"].
\item Id. at 572-573 ($\S$1, 2)
\item Id. at 572-573 ($\S$ 5 - Reporting Requirement). On March 1 of each calendar year, each viatical settlement provider licensed in this state shall make a report containing the following information for the previous calendar year: (A) For each policy viaticated: (1) Date viatical settlement entered into; (2) Life expectancy of the Viator at the time of contract; (3) Face amount of the policy; (4) Amount paid by the viatical settlement provider to viaticate the policy; and (5) If the Viator has died: (a) Date of death; (b) Total insurance premiums paid by viatical settlement provider to maintain the policy in force; (B) Breakdown of Applications Received, Accepted and Rejected, by Disease Category; (C) Breakdown of Policies Viaticated by Issuer and Policy Type; (D) Number of Secondary Market vs. Primary Market Transactions; (E) Portfolio Size; and (F) Amount of Outstanding Borrowings.
\item Id. at 572-573 ($\S$ 6(H) - Advertising Standards).
\item Playing Field in "Death Futures" Can be Slippery, PLAIN DEALER, May 5, 1997 (stating that to guard against fraud, experts suggest checking out viatical companies with the National Viatical Association at (800) 741-9465, or the Viatical Association of America (800) 842-9811).
\end{enumerate}
\end{footnotesize}
usually only worth 50 to 80 percent of the value of the life insurance
policy, some commentators complain that these discounted settlements
translate into profits that are disproportionate to the risks associated with
viatication. Proponents of viatical settlements, however, claim the risks
associated with viatication justify the calculation of low distribution
percentages. Since the failure to accurately assess these variables could
result in diminished profits or even a net loss to the VSP, proponents
argue that large discounts are necessary to offset potential losses.

Among the considerations, VSPs must evaluate the stability of the
insurance carrier because of the risk that the insurer could become
insolvent or otherwise default on its obligation under the policy. In
addition, VSPs must bear the risk of rising interest rates after negotiation
of the settlement, which would effectively increase the cost of their
borrowed capital. Furthermore, VSPs must consider the possibility that
a life-prolonging treatment or cure for the terminal illness might result in
a diminished return or net loss. Similarly, a VSP must accept the danger
that the Viator could simply outlive a physician’s best estimate of life
expectancy. 

VIatical companies must also face the risk that ex-beneficiaries might attempt to enforce their previously released rights,
thus resulting in costly litigation. Finally, the VSP must accurately
estimate the administrative costs associated with viatication. Such costs,

63Berner, supra note 13, at 584; see also Glick, supra note 19, at 964-965 (stating that the
fixed sum payment reflects the buyer’s estimation of the present value of the policy’s future
money claim, discounted by both the premiums the buyer expects to pay and the risk that the seller
will live longer than expected).

64See Herron, supra note 4, at 958 (claiming that the profits enjoyed by viatical companies
are disproportionate to the risks and costs incurred and that such profits cannot be explained
wholly on those bases).

65See id. at 950 (justifying the low payouts of viatical companies by pointing to the
substantial risks associated with viatication).

66Id. at 950-51.

67See id. at 954 (showing that an insurance company default will leave the viatical company
with a valueless policy).

68Schultz, supra note 62, at 104.

69See Herron, supra note 4, at 955.

70See id. at 950 (stating that the cost to viatical companies can be quite substantial if the
Viator outlives the company’s life expectancy prediction).

71Lee Ann Dean, Note, Acquired Immune Deficiency Syndrome, Viatical Settlement, and the
Health Care Crisis: AIDS Patients Reach Into the Future to Make Ends Meet, 25 RUTGERS L.J.
117, 142 (1993).
including policy premium payments, mailing and telephone expenses, legal fees, and costs resulting from the physician’s examination of the Viator,\footnote{Herron, supra note 4, at 957.} may exceed $3,000 per policy.\footnote{See Carole C. Lamson, Legal Introduction to Living Benefits in Life Insurance: New Perspectives and Developments, N.Y. St. B.J., Nov. 1993, at 16 (stating that some have placed the average administrative costs for viatication at $3,000 per policy).}

**Accelerated Death Benefits**

Unlike viatical settlements, ADBs are paid directly from the life insurance carrier and cost the recipient very little.\footnote{Herron, supra note 4, at 972.} When first introduced, insurance companies touted the option as the alternative that would make viatical settlements obsolete.\footnote{Id. at 971.} The ADB option has failed to live up to such expectations because ADBs are only available to the policy holder if the option was originally written into the policy or if the benefit was made available through a rider.\footnote{Id. at 971-972; see also Nirtaut, supra note 15, at 23 (estimating that as many as 25 percent of employers may have an ADB provision in their life insurance plans); Cf. Ball, supra note 15 (stating 25 percent of universal and variable life policies not have accelerated benefits riders, while only 5 percent of all life insurance policies now have them).}

In addition, most insurers offering ADBs require certain conditions to be met before a disbursement will be made. Traditionally, a physician’s diagnosis that the insured has twelve 12 months or less to live has been required by insurers for disbursement to commence.\footnote{Caldwell, supra note 7, at 2; see also Herron, supra note 4, at 973 (stating that 67 percent of companies offering accelerated benefits require the policyholder to have a life expectancy of less than one year before benefits will be accelerated. Moreover, 30 percent require a life expectancy of less than six months before benefits will be accelerated).} Viatical arrangements, on the other hand, generally do not require such a prognosis;\footnote{SEC v. Life Partners, Inc., 898 F. Supp. 14, 18 (D.C. 1995), vacated by 87 F.3d 536 (D.C. Cir. 1996), reh’g denied 102 F.3d 587 (1996) (although the standard viatical settlement is made to people with life expectancies of twenty-four months or less, other offerings allow investors to select the policies of Viators expected to live longer than two years).} and unfortunately, by the time a person has less than twelve months to live, he or she may be virtually immobile or unable to enjoy all of the benefits of an accelerated policy. Therefore, because a terminally ill person may wish to collect the living benefits while still able to enjoy them, ADBs are not always an effective option.
Moreover, many ADB options restrict the percentage of the policy’s face value that may be accelerated. Typically, acceleration of up to 50 percent of the value of the policy is all that is allowed. In addition, ADBs have generally been available only on whole life policies, while viatical arrangements are generally available for any type of life insurance policy, including term life policies.

As a result, the conditions and restrictions imposed on such ADB benefits have prompted at least one commentator to claim they are only preferable to viatical settlements in limited instances. Not only must the insured have the ADB option available, and have less than one year to live, but also the insured’s financial needs must be satisfied by whatever accelerated benefits are permitted under the acceleration clause.

ADBs do, however, offer advantages that viatical settlements cannot. Unlike viatical settlements, accelerated benefits cost the policyholder very little. Additionally, the unaccelerated remainder of the policy, minus applicable fees, is generally preserved for the named beneficiaries upon the death of the insured. In the viatical arrangement, no such option is available since the VSP is assigned the entire face value of the policy.

LEGAL TREATMENT OF ADB AND VIATICAL SETTLEMENTS

Although traditionally marketed to Human Immunodeficiency Virus (HIV) and AIDS sufferers, viatical settlements and ADBs have been, and

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79 Herron, supra note 4, at 973 (stating that only 25 percent of companies offering acceleration impose no limit, while 59 percent of companies limit the accelerated portion to no more than 50 percent of the policy’s face value).
80 Id.
81 Caldwell, supra note 7, at 2.
82 Id.
83 Herron, supra note 4, at 974.
84 Id.
85 Id. at 972.
86 Id. at 974; but see Schultz, supra note 62, at 105 (noting that most viaticators are homosexual males without dependents or the need to preserve their life insurance benefits).
are increasingly used by those suffering from other terminal illnesses. As word has spread of the availability of the financial options, those suffering from heart disease, Alzheimer's disease, and amyotrophic lateral sclerosis (ALS), also known as Lou Gehrig's disease, have shown considerable interest in viatcating their life insurance policies.

Today there is some evidence that the creation of viatical settlements for HIV/AIDS sufferers is diminishing. Encouraging medical news from the 11th International AIDS Conference in Vancouver, Canada, regarding the efficacy of new drug treatment, has caused one of the nation's largest viatical settlement companies to stop buying policies from AIDS patients. Among the discoveries, physicians have found that protease inhibitors significantly diminish the spread of HIV in clinical trials.

Some believe that these drug cocktails may transform AIDS into a manageable chronic disease. As a result of this life-prolonging AIDS discovery, industry experts predict that the growth of the viatical industry will likely come from servicing people with other diseases. Among those considered desirable Viators are elderly diagnosed with life-threatening diseases such as cancer, heart disease, Alzheimer's disease, 

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87 See Matt Roush, Accelerated Death Benefits are Alive and Well, CRAB'S DETROIT BUS., Oct. 28, 1996 (stating that AIDS patients currently make up about 80 percent of the accelerated benefits business, but that a year from now they are expected to only make up 50 percent of the client base).
88 Id.
89 Id.
90 See Lauren Chambliss, Business Day: How Making Money Out of Death is Dying Out, THE EVENING STANDARD, Oct. 23, 1996 (stating that new treatments for AIDS have very nearly killed the viatical industry that was making tidy profits from death).
91 See Kathy M. Kristoff, Consumer Checklist/Your Money Servicing Terminally Ill, L.A. TIMES, Sept. 13, 1996, at D3 (reporting the medical news that protease inhibitors significantly stem the progression of AIDS in clinical tests); see also Chambliss, supra note 90 (stating that a new class of drugs is extending the lives of the HIV-infected, wrecking the actuarial tables on which the viatical industry is based).
92 Kristoff, supra note 91; Chambliss, supra note 90.
93 Jane Bennett Clark, New Weapons Against AIDS - At a Price: The Latest Treatments Cost Up to $20,000 a Year, KIPLINGER'S PERS. FIN. MAG., Feb. 1, 1997, at 102 (Managing Money: Health & Fitness).
94 Kristoff, supra note 91.
stroke, or ALS. In addition, others with certain pulmonary conditions, chronic kidney disease or liver failure are also considered viable candidates for viatication. Some companies are now even selling viaticals to anyone over age eighty-three. However, since protease inhibitors do not help everyone and can cost as much as $20,000 per year to administer, HIV/AIDS patients may still be in need of medical funds since most health insurance plans limit medication reimbursement as well as medications to those included on a specific approved list.

Until now, a significant drawback to ADBs or viatical settlements was that such disbursements were considered gross income and thus taxed at ordinary income rates. In a 1994 Private Letter Ruling, the Internal Revenue Service (IRS) considered whether the sale or assignment of a life insurance contract is a taxable event. In this instance, the taxpayer argued such an assignment of a life insurance policy should be excluded from gross income under section 101(a)(1) of the Internal Revenue Code (Code) because all amounts received under a life insurance contract are tax-free if paid by reason of the death of the insured. However, because the patient-taxpayer had not yet died, the IRS ruled the amounts received were not considered by reason of the death of the insured. In support of its conclusion, the IRS reasoned that an assignment of a life insurance contract for consideration is a sale or exchange of property under section 1001(b).

However, because the patient-taxpayer had not yet died, the IRS ruled the amounts received were not considered by reason of the death of the insured. In support of its conclusion, the IRS reasoned that an assignment of a life insurance contract for consideration is a sale or exchange of property under section 1001(b). Hence, because gross income includes all income from whatever source derived, including

\[\text{References}\]

95 Crites-Lenoni, supra note 13, at 67.
96 Id.
97 Id.
98 Clark, supra note 93.
99 Kristoff, supra note 91; see also Life Insurance, supra note 12, at d10; see also Thomas W. Johnson, Viatical Firms Report 300% Surge in Sales, FINANCIAL PLANNING, May 1, 1997 (citing William E. Kelley, Executive Director of the Viatical Association of America, explaining that viatical companies which have not tapped into the "mainstream" terminal disease market are experiencing only modest growth).
101 See id.; see also, 26 U.S.C.A. § 101(a) (1997) (excluding from gross income, all amounts paid under a life insurance policy if paid by reason of death of the insured).
102 Id.
gains from the sale of property,\textsuperscript{104} viatical and ADB disbursements must be taxable.

Although the private letter ruling was not a legal precedent \textit{per se},\textsuperscript{105} it was viewed as a serious deterrent for some people considering viaticating their life insurance policies.\textsuperscript{106} Of those who did viaticate, some simply never reported the income on their tax returns knowing the companies that buy life insurance death benefits typically do not send 1099 forms to the recipients or to the IRS.\textsuperscript{107} As a result of the HPAA, recipients may no longer need to be concerned about the federal tax implications of receiving ADBs or viatical settlements. However, it is important to recognize that every personal situation is unique and there are still numerous considerations\textsuperscript{108} that an insured must evaluate before selling, assigning, or accelerating her policy.\textsuperscript{109}

\textbf{26 U.S.C.A. § 101(g) Treatment of Certain Accelerated Death Benefits}

Under HPAA, section 101 of the U.S. Code (relating to certain death benefits) is amended by adding section (g): Treatment of Certain Accelerated Death Benefits. Included as part of section (g) is sub-section (2), which specifically addresses the "Treatment of Viatical


\textsuperscript{105}See 26 U.S.C.A. § 6110(j)(3) (1997) (a private letter rulings is directed only to the taxpayer who requested it, and may not be used or cited as precedent).

\textsuperscript{106}See Life Insurance, \textit{supra} note 12, at d10 (noting that in the past, people knew that the IRS wanted to tax proceeds as regular income, thus people opted not to use viatical settlements because they did not want to pay income taxes on the settlement).

\textsuperscript{107}Asinof, \textit{supra} note 12; but see 26 U.S.C.A. 6050Q(A) (1997) (mandating that any person who pays long-term care benefits shall make a return, according to the forms or regulations prescribed by the Secretary, setting forth: (1) the aggregate amount of such benefits paid by such person to any individual during any calendar year; (2) whether or not such benefits are paid in whole or in part on a per diem or other periodic basis without regard to the expenses incurred during the period to which the payments relate; (3) the name, address, and TIN of such individual; and (4) the name, address, and TIN of the chronically or terminally ill individual on account of whose condition such benefits are paid).

\textsuperscript{108}Among the considerations, the potential Viator must determine whether such disbursements are subject to state taxation. Although many states follow the federal law with respect to such disbursements, some do not.

\textsuperscript{109}See Lynn Waldsmith, \textit{Insurers Widen Scope of Death Settlements: Better AIDS Therapies Prompt Insurance Buyout Companies to Consider Cancer, Other Fatal Diseases}, The Detroit News, Feb. 9, 1997, at C1 (noting that the interest on a bank loan may be less than the discount one could receive on a life insurance policy).
Collectively, any pre-death distribution received under a life insurance contract on the life of an insured who is either terminally or chronically ill shall be treated as an amount paid by reason of the death of an insured. Therefore, due to section 101(a)(1), such pre-death disbursements shall be excluded from the gross income of the recipient.

According to section 101(g)(4)(A), a "terminally ill individual" is one who has been certified by a physician as having an illness or physical condition which can reasonably be expected to result in death within twenty-four months or less after the date of certification. A "chronically ill individual" is defined by section 101(g)(4)(B) as having the meaning given by section 7702B(c)(2), except that such term shall not include a "terminally ill individual." As such, a chronically ill individual is one who has been certified by a licensed health care practitioner, within the preceding twelve month period, as being unable to perform (without substantial assistance from another individual) at least two activities of daily living for a period of at least ninety days due to a loss of functional capacity. Such daily activities include:

1) eating,
2) toileting,
3) transferring,
4) bathing,
5) dressing, and
6) continence.

An individual may also be deemed chronically ill if she is certified by a licensed health care practitioner within the preceding twelve month period as having a

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111 H.R. Conf. Rep. 104-736, July 31, 1996 (to qualify as an insurance contract for federal income tax purposes, a contract must be a life insurance contract under the applicable state or foreign law and must satisfy either of two alternative tests: (1) cash value accumulation test; or (2) a test consisting of a guideline premium requirement and a cash value corridor requirement (26 U.S.C.A. 7702(a) (1997))).
level of disability similar to the level of disability described above,\textsuperscript{117} or requiring substantial supervision to protect such an individual from threats to health and safety due to severe cognitive impairment.\textsuperscript{118}

This distinction between the chronically and terminally ill is made because there are certain special rules which apply only to the chronically ill. Under section 101(g)(3)(A), a chronically ill insured may not receive tax-free pre-death disbursements unless certain conditions are met. First, the distribution must be used to pay for the unreimbursed costs incurred by the insured for "qualified long-term care services."\textsuperscript{119} "Qualified long-term services" are defined in section 101(g)(4)(C) as necessary diagnostic, preventative, therapeutic, curing, treating, mitigating, and rehabilitative services and maintenance or personal care services which: (a) are required by a chronically ill person;\textsuperscript{120} and (b) are provided pursuant to a plan of care prescribed by a licensed health care practitioner.\textsuperscript{121}

Second, for a chronically ill patient to be covered by HPAA, the terms of the contract giving rise to such a payment of pre-death benefits must also satisfy both the requirements of section 7702B(b)(1)(B),\textsuperscript{122} and the requirements (if any) applicable under subparagraph (B) entitled "Other Requirements."\textsuperscript{123} These provisions relate to the treatment of qualified long-term care insurance contracts\textsuperscript{124} and the consumer protection provisions promulgated by the NAIC under the Long-Term Care Insurance Model Regulation and the Long-Term Care Insurance Model Act.\textsuperscript{125} In addition, a chronically ill individual must follow the standards adopted by the NAIC which specifically apply to chronically ill

\textsuperscript{117} Id. (as determined under regulations prescribed by the Secretary of the Treasury in consultation with the Secretary of Health and Human Services).


\textsuperscript{122} 26 U.S.C.A. § 101(g)(3)(A)(ii)(I) (1997) (under section 7702B(1), the term "qualified long-term care insurance contract" means any insurance contract if... (B) such contract does not does not pay or reimburse expenses incurred for services or items to the extent that such expenses are reimbursable under title XVIII of the Social Security Act (42 U.S.C.A. § 1395 (1997)) or would be so reimbursable but for the application of a deductible or coinsurance amount).


\textsuperscript{125} 26 U.S.C.A. § 7702B(g) (1997).
individuals. Moreover, a chronically ill individual is required to follow the standards adopted by the state in which the policyholder resides.

Finally, a chronically ill individual may receive only a limited pre-death disbursement. Under section 101(g)(3)(D), payments of pre-death tax-free disbursements are limited to that allowable under section 7702B(d), which limits per diem disbursements to the excess (if any) of the greater of either: (1) $175 per day ($63,875 annually); or (2) the costs incurred for qualified long-term care services provided for the insured in excess of the aggregate payments received as reimbursements (through insurance or otherwise) for qualified long-term care services. However, since chronically ill individuals are limited to payments for the unreimbursed costs for qualified long-term care services under section 101(g)(3)(A)(i), the maximum pre-death disbursement is limited to the unreimbursed expense of the long-term care services. In the event that such payments exceed this limitation, such excess shall be includable in gross income.

HPAA also specifically defines what is meant by a "viatical settlement provider" and designates certain requirements that must be met before one can conduct the business of viatication. Under HPAA, a "viatical settlement provider" is any person regularly engaged in the trade or business of purchasing, or taking assignments of, life insurance contracts on the lives of terminally or chronically ill, provided that the person meets certain conditions. Generally, the person must be licensed for the purpose of purchasing, or taking assignments of, life insurance contracts on the lives of terminally or chronically ill, provided that the person meets certain conditions.

However, if the state in which the insured resides does not require a license for such activity,
the viatical settlement provider must meet certain explicit requirements governing the care for the terminally or chronically ill set forth below.\textsuperscript{134}

To viaticate a terminally ill person’s policy when the insured’s state does not require licensing of the VSP, a VSP must meet the requirements of sections eight and nine of the NAIC Model Act,\textsuperscript{135} which involve the disclosure, certification, and consent requirements described above.\textsuperscript{136} In addition, such unlicensed VSPs must follow the requirements of the NAIC Model Regulations relating to the standards for evaluation of reasonable payments in determining the disbursement amounts for the terminally ill insured.\textsuperscript{137} Since the NAIC currently does not distinguish between the terminally or chronically ill in its standards for evaluation of reasonable payments, a chronically ill Viator should be presumed to receive the same reasonable payments as any other Viator.

\textbf{ANALYSIS AND IMPACT}

Effectively, this new law only partially increases the viability of viatical settlements and ADBs as estate planning tools. Although HPAA allows the exclusion of such disbursements from gross income, it does not go far enough in creating real benefits for the terminally and chronically ill. According to a recent study published by the \textit{JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION} (JAMA), more than 100 million Americans live with chronic conditions\textsuperscript{138} and their direct health care costs account for three-fourths of U.S. health care expenditures.\textsuperscript{139} Including indirect costs, the amount spent on chronic conditions in 1990 was a staggering $659

\textsuperscript{136}See Osborn, \textit{supra} note 13, at 477-78.
\textsuperscript{138}Catherine Hoffman, et al., \textit{Persons with Chronic Conditions: Their Prevalence and Costs}, 276 JAMA 1473, 1477 (1996) (defining “chronic condition” as being a self-reported condition classified under the rules of the International Classification of Diseases, Ninth Revision (ICD-9) and meeting the criteria of (1) being identified as an “X” code, as defined by the National Medical Expenditure Survey (NMES) and National Health Interview Survey (NHIS) as an impairment; and (2) if not an “X” code, then was a 3-digit ICD-9 code for a disease which is not self-limiting, but creates persistent and recurring health consequences, lasting for periods of years (not days or months). However, such a definition does not include conditions which may also be acute, such as unspecified bronchitis).
\textsuperscript{139}Id. at 1476.
billion dollars. Moreover, the study concluded that the majority of these persons are not disabled nor are they elderly. Since some predict the baby-boom population will live longer with chronic illnesses, it should be anticipated that expenditures for chronic conditions may increase exponentially in the coming years. Consequently, health care reform should be directed at curbing the growth of such expenses and discouraging reliance on government assistance. Although chronic sufferers seem to be the population most in need of financial assistance, and the population most likely to rely on Medicaid or Medicare for such aid, HPAA does little to address the needs of the chronically ill or to curb their dependence on government assistance.

In contrast, increased viatication among terminally ill individuals may theoretically cause a reduction in government reliance and an actual growth in federal revenue. Assuming that terminally ill Viators pay for their own medical expenses with their distributions, they will not need to rely on Medicaid for their medical care. In addition, since they will likely pay full price for medical services, rather than the discounted Medicaid rate, they will generate greater tax revenues. Furthermore, assuming such funds are used to pay caregivers, tax revenues from wages will theoretically increase. Finally, since VSPs will presumably generate more revenue and pay more taxes, some speculate HPAA could generate as much as $390 million dollars for the federal government between 1995 and 1999.

In addition, HPAA does provide some consumer protection by granting tax-free treatment only when licensed individuals make the purchase or assignment of life insurance policies. Unfortunately, some ambiguities in HPAA leave open opportunities for fraud and abuse. Even

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140 Id. at 1477.  
141 Id. at 1477-78.  
142 S.B. Fowler, Health Promotion in Chronically Ill Older Adults, 29(1) J. NEUROSCI. NURS. 39, 39-43 (Feb. 1997).  
143 See Hoffman, supra note 138, at 1478 (stating that the aging population will result in growing numbers of persons with chronic conditions requiring medical and long-term care so as to have a significant absolute impact on health care use and expenditures).  
144 Id.  
145 Id.  
146 Id.  
147 Id.
though HPAA extends the marketability of such arrangements to those with chronic illnesses such as Alzheimer's or Parkinson's disease, the nature of chronic disease will severely limit the number of chronically ill individuals who can benefit from HPAA.

Presumably, HPAA was designed to make money more accessible to those with terminal or chronic illnesses. Non-taxable income provides the freedom to travel, pay bills, or provide for loved ones after death. Subject to their ability to enjoy the money, a terminally ill individual may do virtually anything she wishes with the money she receives from such a tax-free disbursement.

Chronically ill individuals are limited to using the money to pay for unreimbursed, qualified long-term care and are restricted by a cap which limits the total amounts distributable. Therefore, chronically ill individuals may not enjoy the money as much as someone who is destined to die; instead, they are permitted to use the money only for services which ease, yet prolong their misery. As a result, HPAA will not benefit chronically ill individuals as much as it will the terminally ill.

Unfortunately, HPAA does not specify who will monitor how the money is spent. Therefore, it is conceivable that a chronically ill individual could use the money for any purpose. In addition, it is unclear whether the money may be commingled into other accounts, because once commingled, it is obviously very difficult to track precisely how the money is spent. Because there is no provision that requires the insurance company or VSP to pay for such long-term care services directly, the insured receives such funds and is responsible for claiming them as gross income. As a result, a chronically ill person can easily abuse the system by depositing the money into her general account without reporting the transaction to the IRS.

\[101(g)(3)(A)(i) (1997) (however, pursuant to 26 U.S.C.A. § 7702B(d)(5) (1997) the dollar amount limitation shall be adjusted for inflation in the calendar years after 1997 in the same manner as amounts are increased pursuant to section 26 U.S.C.A. § 213(d)(10)).\]

\[6050Q(a) (1997)\]

148 See H.R. Conf. Rep. 104-350 (Nov. 16, 1995) (indicating that the intended definition of chronically ill should include those with Parkinson's disease, Alzheimer's disease, or symptomatic AIDS); see also Beyond the Minimum: How New Laws Affect Nest Eggs, Insurance, CHI. TRIB., Oct. 6, 1996 (claiming that the tax benefits make this something where people with heart disease or Alzheimer's or any condition will see a real alternative for handling their money at the end of their lives).

Additionally, HPAA provides that a person must be certified by a physician as being either terminally or chronically ill. The new law, however, fails to state who is responsible for the physician certification. While it is presumed that the taxpayer is responsible for obtaining such a certification, viatical settlement providers may still encourage potential Viators to visit "viatication friendly" physicians. Although such fraudulent certification may jeopardize a physician's license, the lure of considerable fees paid for such services may be enough to persuade some unscrupulous physicians to embellish their diagnoses.

While the new legislation extends the marketability of pre-death arrangements to those with chronic illnesses, the definition of "chronic illness" is so broad that it allows a wide range of individuals to qualify for pre-death distributions. Clearly, the intent of this definition was to allow those individuals with disorders such as Alzheimer's or Parkinson's disease to be able to take advantage of tax-free pre-death arrangements. However, under the present definition, individuals with conditions such as depression, asthma, or arthritis may be certified as having a chronic illness which would entitle them to such tax-free pre-death benefits. Although such conditions are often serious, they are usually manageable by drug therapy and are usually not debilitating conditions that warrant the acceleration or viatication of a life insurance policy.

In practice, however, the definition of chronic illness is effectively irrelevant. Because the nature of the pre-death settlement industry

151 26 U.S.C.A. § 101(g)(4)(D) (1997) (having the meaning given by section 1861(r)(1) of the Social Security Act (42 U.S.C.A. § 1395x(r)(1) (1997)), HPAA defines a "physician" as a doctor of medicine or osteopathy legally authorized to practice medicine and surgery by the State in which he performs such a function or action).

152 Life Insurance, supra note 12, at d10.


154 Charlette Snow, Facing Alzheimer's Healthcare Issues; Medicare HMOs Develop Plan for Future of Alzheimer's Programming, Modern Healthcare Special Rept., Sept. 23, 1996, at 66 (estimating $80 billion to $100 billion a year in costs associated with Alzheimer's disease, making it the third most expensive disease in the country, just behind heart disease and cancer. In addition, the report indicates that in 1990, the average cost for professional home health care for Alzheimer's patients was $12,572, 63% of which was paid out-of-pocket. For institutionalized care, the annual average cost was $42,049 about 60% of which was paid out-of-pocket). For institutionalized care, the annual average cost was $42,049 about 60% of which was paid out-of-pocket.

155 See H.R. Conf. Rep. 104-350 (Nov. 16, 1997) (indicating that the intended definition of chronically ill should include those with Parkinson's disease, Alzheimer's disease, or symptomatic AIDS).
depends on the actual death of the insured, it is unlikely that most chronically ill individuals (no matter how defined) would be granted a pre-death disbursement of their policy. More importantly, even those with Alzheimer’s or Parkinson’s disease will probably not benefit from this HPAA. Because there are no accurate actuarial tables for the lives of those with such disorders, it is too difficult to measure life expectancy, and thus, too risky to accelerate or viaticate these policies. Therefore, although HPAA’s intent is to aid such individuals, the real effect will be negligible.

If Congress had truly intended to assist those with terminal or chronic illnesses through HPAA, there are a number of other methods that could have been employed to make cash more easily accessible. Since tax laws serve the purpose of encouraging or discouraging behaviors, serious efforts could have been made to reduce the burdens on the chronically ill, their families, and both state and federal governments. To reduce the burdens imposed on the government and the family of a chronically ill individual, tax incentives which encourage home health care could be provided to relatives or guardians of the chronically ill individual. Although such incentives may have the short term effect of reducing revenue, they would have the ancillary effect of reducing reliance on programs such as Medicare.

In addition, Congress could have allowed terminally or chronically ill individuals or their families a full deduction for all medical expenses, not just those above 7.5 percent of the adjusted gross income. If many terminally or chronically ill patients no longer work, and therefore have little or no income, there are a number of functional chronically ill individuals who would benefit from such a deduction. Again, such a

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156 26 U.S.C.A. § 213(a) (there shall be allowed as a deduction the expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, her spouse, or a dependent (as defined in section 152), to the extent that such expenses exceed 7.5 percent of adjusted gross income); 26 U.S.C.A. § 152 defines a “dependent” as any of the following individuals over half of whose support was received from the taxpayer: (1) the son or daughter of the taxpayer, or a descendant of either, (2) a stepchild of the taxpayer, (3) a brother, sister, stepbrother, or stepsister of the taxpayer, (4) the parent of the taxpayer, or an ancestor of either, (5) a stepfather or stepmother of the taxpayer, (6) a son or daughter of a brother or sister of the taxpayer, (7) a brother or sister of the father or mother of the taxpayer, (8) a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the taxpayer, (9) an individual who has their principal place of abode at the taxpayer’s house and who is a member of the taxpayer’s household).
deduction may initially decrease revenue, but such a loss in revenue could be offset by requiring that the deduction be available only if it reduced reliance on a government assistance program by the equivalent amount.

Finally, low interest federally insured loans collateralized by personal property, real property, or life insurance policies could be made available to chronically ill individuals. Again, such benefits would likely reduce the reliance on the government for medical care assistance and may be an effective means for individuals who lack family support to obtain necessary funds.

Despite its faults, HPAA will still benefit some individuals with terminal illnesses who need immediate cash. Because tax-free treatment is available only if the money is received from a qualified or licensed viatical settlement provider, a strong consumer protection incentive to use reputable representatives has been created. As a result, consumers with terminal illnesses will benefit because viatical settlement providers will need to comply with regulatory standards in order to maintain eligibility as “qualified viatical settlement providers.”

CONCLUSION

In summary, only certain terminally ill individuals will significantly benefit from HPAA. Because it has become more difficult to predict the death of those with HIV or AIDS, VSPs are now reluctant to viaticate unless the individual’s life has severely deteriorated. As a result, HIV/AIDS sufferers should not expect to enjoy the benefits of these pre-death arrangements until much later in the progression of their disease, when they may not be capable of fully enjoying the money. Because it is generally too difficult to determine the life expectancy of a chronically ill person, it is unlikely that VSPs will viaticate or insurance companies will accelerate the policies of such individuals. As a result, most people with chronic illnesses should not expect to enjoy the benefits of HPAA.

Ultimately, those with heart disease, cancer, or other non-AIDS related terminal illnesses might benefit most from HPAA. Since their life expectancy is reasonably determinable, and no cure or adequate treatment is in sight, VSPs and insurance companies should be more likely to offer pre-death disbursements to these individuals. Given the advances in the treatment of HIV/AIDS and the uncertainty of predicting death of the
chronically ill, sufferers should investigate other means of financial support before viaticating or accelerating a life insurance policy.