

Consumer Counselor

Financial Information for Michigan Consumers

Understanding Viatical Settlements

What is a Viatical?

A life insurance policy normally provides a sum of money to a named beneficiary upon the death of the person whose life is insured. A viatical settlement occurs when the policy owner, referred to as the viator, sells the right to become the policy beneficiary to an investor, called the settlement provider, for an immediate cash payout. This money is paid in a single lump sum while the viator is still alive, enabling them to pay for medical treatment, housing, or other emergency needs. Once the sale is completed, the buyer pays the insurance premiums and then collects the full death benefit when the viator dies.

Most sales are arranged by a broker who does the paperwork to complete the transaction. The settlement provider pays the broker a commission if the sale is completed.

You do not need to have a life-threatening illness to sell your life insurance policy, though this is the most common reason that a consumer may sell.

Consider your options first:

If you're interested in selling your policy to get cash to pay expenses, check all your options first. You may find a way to get enough cash from your life insurance policy without having to sell the policy.

Ask your insurance agent or company if you have any cash value in your life insurance policy. You may be able to use some of the cash value to meet your immediate needs and keep your policy in force for your beneficiaries. You may also be able to use the cash value as security for a loan from a financial institution.

Find out if your life insurance policy has an accelerated death benefit (ADB). An accelerated death benefit typically pays some of the policy's death benefit before the insured dies.

It may be a way for you to get cash from a policy without selling it to a third party.

If neither of those options are possible, a viatical may make sense for you. As always, before you make any financial or insurance decision, consult a qualified professional.

Consumer Tips for selling a viatical:

- Comparison shop. Get quotes from several companies to make sure you have a competitive offer.
- Find out the tax implications. Not all proceeds received from the sale of your life insurance policy are tax free.
- It's important to know that any of your creditors could claim your cash settlement.
- Find out if you will lose any public assistance benefits such as food stamps or Medicaid if you get a cash settlement.
- The buyer of your policy can periodically ask you about your health status. The buyer is required to give you a privacy notice outlining who will get this personal information. Be sure to read it.
- Check all application forms for accuracy, especially your medical history. All questions must be answered truthfully and completely.
- Make sure the viatical settlement provider agrees to put your settlement proceeds into an independent escrow account to protect your funds during the transfer.
- Find out if you have the right to change your mind about the settlement AFTER you get the money. If so, how many days do you have to reconsider and return the money?



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Important questions for a viator to ask before selling a policy:

- Does my policy have an ABD?
- If I sell my policy, how do they decide how much cash I get?
- If I decide to sell, who will be the legal owner of the policy?
- Do I still need other life insurance protection?
- Do I need permission from a group owner or employer to sell my policy?
- What are the tax or estate planning implications from this decision to sell?
- Who has access to my personal information?

About DIFS

The mission of the Michigan Department of Insurance and Financial Services is to ensure access to safe and secure insurance and financial services fundamental for the opportunity, security and success of Michigan residents, while fostering economic growth and sustainability in both industries. In addition, the Department provides consumer protection, outreach, and financial literacy and education services to Michigan citizens. For more information please contact DIFS at 877-999-6442 or visit www.michigan.gov/DIFS

