

Marin Independent Journal

WEATHER: Sunny, with highs in the 70s on the coast and 90s inland. Details, A2.

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BUSINESS

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"They earned this money, and it does them no good after they die."



PROBERS: Carol Fiedler is owner of Fiedler Financial, a Sausalito company that is licensed to make viatical settlements — that is, help terminally ill people cash out their life insurance policies to use the money before they die. She says the industry needs regulation.

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Terminally ill cash in to enjoy life

Life insurance trend creates new industry

By John Gilles

Independent Journal reporter

Juan Palma has AIDS and he sometimes gets sick, but he's also having some good times.

"I went to Paris, I bought a new car and I was able to move out of the city to the country where the air is fresh," Palma says.

Palma, a Guerneville resident, was able to afford the good life because he sold his life insurance policy in a transaction known as a "viatical settlement."

"I did the right thing," says Palma, who had a life insurance policy he received as a job benefit during his career as a flight attendant.

"The money provides for a little security, which is nice to have when you're in my position."

Palma is not alone. So many terminally ill people are opting to cash out their insurance policies that they have created a new industry. So-called "viatical settlement" companies are springing up across the United States to meet the demand.

The word viatical comes from the Latin *viaticum*, which literally means "provision for the journey," and was historically used as a name for the communion given to dying Christians.

This year, the firms are expected to purchase more than \$400 million worth of policies in viatical settlement, said Bill Kelley, executive director of the Viatical Association of America, a Washington, D.C.-based

trade group.

Essentially, investors are betting on a quick death, because there is no return on their investment until that happens.

By selling their insurance, terminally ill people opt to get money now for living expenses instead of leaving the benefits to heirs. The income is taxable, but legislation is pending in Congress to make the settlement tax-free for anyone with a terminal illness.

According to industry experts, most policyholders who take that option are gay men with AIDS who have no children. Women, and, increasingly, people with other diseases also have sold their policies.

As it grows, the burgeoning viatical industry is attracting the attention of government regulators and the insurance industry.

Government regulators are beginning to crack down on unlicensed viatical settlement companies after complaints about hidden fees and other unethical practices.

The California Department of Insurance licenses viatical firms that agree to abide by a set of rules designed to protect the consumer.

About 13 viatical funding companies and two brokerage companies are licensed.

Nationally, the Securities and Exchange Commission is investigating several companies for their sales tactics to investors.

Insurance companies, sensing the business opportunity the viatical companies represent, are beginning to offer "accelerated benefits" options that have similar terms.

The typical viatical settlement pays 60 to 80 cents on the dollar, depending on the policyholder's life expectancy, which is usually less

Some expert advice worth remembering

By John Gilles

Independent Journal reporter

If you're considering selling your life insurance policy in a viatical settlement, there are many options and an equal number of pitfalls to consider.

Carol Fiedler, owner of Fiedler Financial in Sausalito, urges policyholders to not rush into a settlement.

"Keep in mind that it is not always advisable to sell a policy," Fiedler says. "This is a valuable asset — it should be used wisely and any potential sale should be carefully considered."

Fiedler suggest considering these options:

■ **Loans:** Many life insurance policies offer the option of borrowing against the policy. This choice preserves some death benefit for the beneficiaries.

■ **Accessing cash value:** Most policies accrue cash value after a

few years, and this can be substantial if a policy has been held for many years. Contact your insurance company to explore this option.

■ **Accelerated or living benefit:** Some insurance companies offer this option to terminally ill policyholders. Generally they require a life expectancy of six months to one year and they pay between 25 percent and 95 percent of the face value of the policy. The remainder of the policy, less administrative fees, is paid to the beneficiary.

■ **Viatical settlement:** This option offers more flexibility and may be more appropriate for those with longer life expectancies, Fiedler says.

If you've decided to go forward with a viatical settlement, Fiedler advises a thorough investigation before working with any company. "What's most important is that people do their homework,"

she says. "This is a very important decision and it should be treated like any other financial decision."

Her advice:

■ "Don't necessarily go with the person who says they'll give you the most money — there could be hidden fees."

■ "Don't let anyone pressure you."

■ "Never sign an exclusive contract with a consultant or broker."

■ "California residents should only deal with California companies, because they've agreed to abide by state viatical regulations, which are among the toughest in the nation."

For more information: Call the California Department of Insurance at 904-5685. Fiedler Financial maintains an informational web site at <http://www.well.com/user/vsmagic>. The phone number is 332-1444.

What your policy is worth

Viatical companies collect the death benefit when the policyholder dies, so they'll pay less when life expectancy is longer. Here's how much you can expect to be paid if you sell your insurance policy, based on a physician's estimate of remaining lifetime:



IJ graphic/Michael Jantz

than two years. Settlements can range into the hundreds of thousands of dollars, depending on the size of the policy and the holder's life expectancy.

Carol Fiedler, owner of Fiedler Financial, a consulting and brokering company in Sausalito, says the industry needs regulation to protect terminally ill people from unethical companies.

"The people who come to me for help are probably at the most vulnerable time in their life," Fiedler says. "Unfortunately, there are some people out there who will take advantage of them."

Fiedler Financial in June became the first brokerage company to be li-

censed by the state. Fiedler wants to see all viatical companies go through the licensing process, which can take months or years.

"Most reputable people in the industry want to see it regulated," agrees Mark Stanger, HIV benefits coordinator for Kaiser HIV Benefit Company in San Francisco.

Fiedler dismisses critics who object to the viatical industry as a macabre business that trades in "death futures."

"When there is a negative perception, it is due to a lack of understanding," Fiedler says. "This is an opportunity to get money they would never have, and many of them need it because they can no longer work and they require attendant care."

"They earned this money, and it does them no good after they die."

HIV benefits coordinator Stanger says he often thinks of the money as a chance for his clients to enjoy an early retirement.

"I always think of my dad, who retired at age 65 and will have years of good health," Stanger says. "This is a chance for them to pay some expenses and enjoy a little bit of retirement."

Palma, who sold his life insurance policy through Fiedler, says he's enjoying his retirement.

He also says his experience with the viatical industry was good.

"I found it to be a very positive experience," Palma says. "I found very honest, very caring people."