Life Insurance Settlement Association

Policy Concerns Addressed by H.R. 5958, The "Senior Health Planning Account Act"

H.R. 5958, the "Senior Health Planning Account Act", is an innovative, fiscally responsible way to address some of the nation's most pressing policy concerns.

- **Helping Seniors Cope with Escalating Health Care Costs.** A healthy couple aged 65 retiring in 2019 can expect to spend $285,000 on health care costs, according to Fidelity Investments.

  Seniors with medical issues face even higher costs. A recent University of Chicago study projects that by 2029 there will be 14.4 million middle-income seniors, 60 percent of whom will have mobility limitations and 20 percent of whom will have high health care and functional needs. The study concludes, "While many of these seniors will likely need the level of care provided in seniors housing, we project that 54 percent of seniors will not have sufficient financial resources to pay for it. This gap suggests a role for public policy and the private sector in meeting future long-term care and housing needs for middle-income seniors."

  To the extent that seniors lack the resources to pay those expenses, they largely forfeit control of their care. Senior Health Planning Accounts would provide a means for seniors to use a valuable asset that many already own, but from which few realize any benefit, to help pay health care costs. Through using their own assets, particularly at the outset of long-term care or other major medical expenses, persons needing assistance can help determine where and how they are treated, a key concern among seniors.

- **Using Private Sector Resources to Mitigate Medicaid Budget Pressures.** Medicaid spending totaled over $600 billion in FY 2019, placing enormous pressure on federal and, especially, state budgets. Those pressures will significantly increase in coming years, due in part to spiraling long-term care costs, which are funded largely by Medicaid. According to the U.S. Department of Heath and Human Services, 7 in 10 seniors are expected to need some type of long-term care before the end of their life. By 2030, an estimated 24 million Americans will need long-term. Senior Health Planning Accounts would encourage the use of private resources for expenses otherwise borne by Medicaid, thus benefiting taxpayers as well as seniors.

- **Developing Fiscally Responsible Solutions.** Federal and state governments already are spending far more than they receive in tax revenue. The Congressional Budget Office projects that the Fiscal Year 2020 federal budget deficit will exceed one trillion dollars—notwithstanding a strong economy and near-record low unemployment—and go up steadily over the next decade. An aging population will exacerbate those unwelcome trends. Maine recently became the first state In U.S. history to have more residents 65 and older than under 18; it was promptly joined by Florida, and much of the rest of the country is certain to follow. In view of those demographic shifts from working age persons to retirees, the Social Security Trustees report that the Old-Age and Survivors Insurance Trust Fund will be depleted in 2035, and that thereafter Social Security taxes will be able to cover only about three-quarters of benefits through 2093.

Life settlements—and, in particular, legislation to permit tax-free rollovers of life settlement proceeds into accounts used to pay qualified medical expenses—offer the potential to both reduce government spending and increase tax revenue.

If seniors use their own funds for expenses otherwise paid by Medicaid, government (that is, taxpayer-funded) outlays will decrease.

Life settlements also have the potential to generate substantial additional tax revenues. Life insurance is a tax-favored asset. Inside buildup is not taxed, and policy lapses generate no income—taxable or otherwise. Policy surrenders also tend to generate little or no tax revenue because cash surrender value often does not exceed the cost basis, that is, premiums paid. In addition, most death benefits on the few policies held until the insured's death are excluded from taxable income. By contrast, life settlements typically produce *much* greater proceeds than lapse or surrender, and, even if senior health planning accounts become available, much of those proceeds would not be rolled over, in part because of severe penalties if the accounts are excessively funded—both unqualified distributions and amounts remaining upon the account holder's death are subject to income tax. Also, death benefits paid on purchased policies are *fully taxable*.

- **Countering Increasing Life Insurance Lapse Rates.** According to the most recent data provided by the American Council of Life Insurers, more than nine out of ten insurance policies (by face amount) terminate without paying a death benefit. In 2018, 7.7 million individual life insurance 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. Retirees are particularly likely to lapse policies. In short, a huge—and hugely valuable—asset class is largely being squandered, and the problem is getting worse. Senior Health Planning Accounts provide a means to put those assets to work—helping seniors and taxpayers alike.