

Viatical Settlements and Living Benefits
A Guide for Employees and Annuitants



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Introduction

The purpose of this guide is to provide an overview and comparison of the Viatical Settlement and Living Benefits under the Federal Employees' Group Life Insurance (FEGLI) Program. It will further assist in determining which option is best suited for employees with a terminal illness.

Reference

Effective October 3, 1994, Public Law 103-336 amended to allow Federal employees, to take an irrevocable assignment of the ownership of their life insurance coverage to another individual, corporation or trustee. Furthermore, Public Law 103-409 effective July 25, 1995, known as the FEGLI Living Benefits Act, defined new provisions concerning Living Benefits. The new law described in OPM Benefits Administration Letter (BAL) 95-216, defines Living Benefits as life insurance benefits paid to an individual while he/she is still living, rather than paid to a beneficiary or survivor upon the insured individual's death.

What is a Viatical Settlement?

A viatical settlement is the "sale" (or assignment) of someone's life insurance coverage to a third party, known as a Viatical Settlement Firm (VSF), in exchange for cash. The percentage of the face value that the VSF will offer varies; somewhere in the range of 60% to 85% of the total face value of the insurance coverage. VSFs generally will accept an assignment from individuals with defined life expectancies. If the insured assigns 100% of his or her insurance to a VSF, the VSF will receive the full life insurance death benefit upon the person's death.

The difference between what the person receives in cash from the VSF and the full face value of the insurance is the VSF's revenue. The purchase price paid for the policy is dependent primarily on the person's life expectancy and the current cost of funds.

What is a VSF?

A VSF is a private firm not connected with the Federal government. The Federal law determines the amount of insurance available and the requirement for receiving a Living Benefit payment. The VSF sets their own requirements and payment amounts. Generally, VSFs accept assignment of life insurance from terminally ill patients within 24 months of their anticipated death.

Support groups for victims of terminal illnesses such as cancer and AIDS generally can help locate such firms. In addition, financial planners, estate planners, social workers, and physicians specializing in terminal illnesses should be aware of these firms and may provide referrals.

When the employee is prepared to assign insurance to a VSF, the firm will ask the employing office to provide information about the employee's FEGLI coverage.

The employing office must have a signed release form by the employee before providing the information; the VSF will give the necessary release form. Copies of the release and the information disclosed to the VSF will be filed in the Official Personnel Folder.

Assigning FEGLI Benefits to a VSF

Assigning benefits transfers ownership of the employee's FEGLI coverage to the assignee(s). The insured no longer has control over his or her insurance coverage and can no longer designate beneficiaries. An assignment is irrevocable.

Upon a valid assignment of FEGLI insurance coverage, all Designations of Beneficiary forms completed by the insured, both before and after the effective date of the assignment, become void. Cancelled designations must be retained in the Official Personnel Folder (OPF) in case the assignment is later found to be invalid. If an employee has more than one type of coverage, he or she must assign all insurance. The employee can assign to more than one person or firm designating specific percentages which must total 100%. Assignments cannot be made so that Basic is assigned to one person/firm, Option A to another, etc.

If the insurance is assigned to a VSF, the firm (like any assignee) may designate whomever it chooses and may change this designation at any time. Depending on the circumstances, the employee may wish to enter into a private agreement with the firm wherein the firm promises to keep the designation valid. However, any contractual arrangements are private negotiations between the employee and the VSF and do not have any effect on the validity of a FEGLI Program designation.

Who pays the premiums for the FEGLI coverage if it has been assigned to a VSF?

The FEGLI Program requires that employees and annuitants continue to pay FEGLI premiums through withholding from their paycheck or annuity, even after the employee or annuitant has assigned his/her insurance to a VSF or, for that matter, to anyone else. They cannot cancel the withholdings. Some VSFs will offer to assume payment of the premiums for the remainder of the employee's or annuitant's lifetime. However, there is no mechanism for the Federal Government to accept premiums directly from a VSF. As an alternative, employees and annuitants may attempt to negotiate an agreement with the VSF that premium expenses payable for their remaining life expectancy be added to their settlement payment from the firm at the time of closing the transaction. This is a private negotiation between the employee/annuitant and the firm.

What Are Living Benefits?

Living Benefits, also known as accelerated benefits in the private sector, are life insurance benefits paid to an individual while he/she is still living, rather than paid to a beneficiary or survivor upon the insured individual's death. This benefit was added to the Federal Employees' Group Life Insurance (FEGLI) Program by Public Law 103-409, the FEGLI Living Benefits Act.

Who Can Elect Living Benefits and Are there Limitations?

Any employee, under the FEGLI Program, who has been diagnosed as terminally ill with a life expectancy of nine months or less, may elect a Living Benefit.

Only Basic insurance is available for Living Benefits. Optional insurance cannot be paid as a Living Benefit. An employee may elect either a full Living Benefit, i.e., all of his/her Basic benefits, or a partial Living Benefit (expressed as a multiple of \$1,000).

An employee can elect Living Benefits only once. If an employee elects a full Living Benefit, he/she has no more Basic insurance. A subsequent increase in salary does not give the employee entitlement to additional Basic insurance. If an employee elects a partial Living Benefit, he/she cannot later elect another Living Benefit from the remaining Basic insurance. In addition, the amount of the remaining Basic insurance will not change, even if there is a subsequent change in salary. Also, a Living Benefit payment cannot be retracted. If the certifying doctor's medical prognosis is wrong, and the employee lives longer than the expected nine months, the employee would not have to repay the Living Benefit.

Who pays the premiums for the FEGLI coverage if Living Benefits have been elected?

If full Living Benefits are elected (the only option available to annuitants) then premiums for Basic will stop. If partial Living Benefits are elected (only available to employees), then premiums for Basic are prorated depending on the dollar value of the remaining Basic benefit. In both cases, premiums for Optional insurance remain unchanged.

How Is Assigning Living Benefits Different from Assigning FEGLI Coverage to a Viatical Settlement Company?

Living Benefits payments come from the Life Insurance Fund (part of the U.S. Treasury). An employee must contact the Office of Federal Employees' Group Life Insurance (OFEGLI) at 1-800-633-4542 to apply for Living Benefits. OFEGLI will send the

employee an application, Claim for Living Benefits (FE-8) and a calculation sheet, to assist him or her in estimating the amount of Basic insurance available.

Viatical settlement companies are private sector businesses not connected with the Federal Government. The amount of insurance available and the requirements for receiving a Living Benefits payment are set forth in Federal law. Viatical settlement companies set their own requirements and payment amounts.

The chart below summarizes the differences between Viatical Settlement Agreement and Living Benefits.

Comparison Chart

	Viatical Settlement Agreement	FEGLI Living Benefit
Earliest Date Available	October 3, 1994 (for all enrollees)	July 25, 1995
Life Expectancy Requirement	24 months or less	9 months or less
Insurance Involved	100% of Basic, Option A and Option B (if held) (100% must be assigned, although not necessarily all to the same person/firm)	100% of Basic (employees and annuitants) Part of Basic (employees only - - must be a multiple of \$1,000)
Percentage of Face Value Paid to Employee/ Annuitant	60 to 85 % - The percentage varies, and is negotiated with the Viatical Settlement Firm (VSF)	94 % (approximately)
Source of Payment	VSF to whom benefits are assigned (sold)	FEGLI Program
Residual Life Insurance Benefit	None, unless the VSF agrees to accept only a percentage of the assignment or to designate a portion to a survivor	Option A and Option B, if held. Remaining Basic for employees who elect partial Living Benefits
Payment of Premiums	Employee continues to pay full premiums and cannot cancel the premiums VSF may agree to reimburse the employee directly for premiums paid	Premium payments for Basic employees who elect a full Living Benefit For employees who elect partial Living Benefits, premiums are prorated depending on the

		amount of Basic insurance remaining
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