A FINANCIAL LIFELINE FOR FAMILIES FIGHTING CANCER

New Use of Assets
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When current cash flow is insufficient to meet a client's immediate financial needs, the client may be able to liquidate or otherwise leverage existing assets to help them meet challenges. Such decisions may be stressful and challenge the client's status quo or sense of stability. However, being open to the possibility of a new use for an asset can increase a client's financial options and sense of control.

Types of assets may include:

- Personal property: automobiles, collections, etc.
- Real estate: home or rental property
- Savings, investments, and retirement accounts
- Life insurance

Although a client may be presently using an asset such as a vehicle, or may have specific long-term goals for an asset such as building a retirement nest egg or saving for college, the reality of immediate financial needs may necessitate a re-evaluation of the best use of a particular asset.

As examples, to create accessible funds, a two-car household may need to sell one car, or, a client may need to consider selling an inherited coin collection.

Out of necessity, savings, investment and retirement accounts are often accessed to meet a client's financial needs. A bank or credit union savings account is a logical asset to utilize for supplemental income to meet expenses. In general, it is ideal to preserve at least a minimal level of cash reserves for unexpected living expenses, such as a home or vehicle repair.

Next in consideration, an investment brokerage or mutual fund account may be a resource for additional funds. Investments securities such as stocks, bonds, mutual funds, etc., are generally liquid and relatively easy to access. Tax and transaction costs should both be considered before selling an asset.

Retirement accounts, such as an employer-sponsored 401(k) or Individual Retirement Account (IRA), are wealth-building vehicles for future financial security in retirement. However, current expenses may create a need to utilize part or all of these resources. There are several distribution options from retirement accounts, depending on the nature of the account. For example, a 401(k) account may have a loan feature. A direct withdrawal from a 401(k) or IRA is a taxable event, but may avoid an additional 10% premature distribution tax penalty, for account owners under age 59.5, if used for medical expenses.

Another important consideration in optimizing the use of savings, investment, or retirement accounts for a client's spending needs is review and coordination of the client's strategy, i.e., risk, return and time horizon. If the client's expected time horizon for consuming an asset or account is short-term (such as within a year or two), then the asset/account's market risk should be reduced or eliminated to protect and preserve the dollar value for the client. For example, shifting an investment account to a more conservative asset allocation strategy to reduce stock market exposure.

Ownership of real estate, including a residence or rental property, may present opportunities to create liquid funds:

- Refinancing a mortgage may be a strategy to reduce the client's monthly mortgage payment obligation. Note: There might be a trade-off between creating the lower mortgage payment and extending the term of the mortgage and increasing the total interest cost.

- A Home Equity Line of Credit (HELOC) or home equity loan are debt-based tools to create immediate access to funds with the trade-off of increasing personal debt requiring eventual repayment.

- A reverse-mortgage is another form of debt that could create immediate additional cash flow or access to a lump sum of cash by leveraging home equity in the form of a home mortgage that is typically not repaid until the death of the homeowner.

- Depending on the client's unique circumstances, there may be other opportunities to leverage real estate. A client might sell their home and save the cash proceeds for upcoming expenses while securing less expensive rental housing. Or, move to less expensive housing while renting their home for net positive cash flow.

- In some instances it may be prudent, if possible, to sell a residence, save the cash proceeds for upcoming expenses, and move-in with a willing relative or friend. This co-habitation arrangement may or may not require cost-sharing such as paying rent or contributing to other housing expenses such as utilities.

- Other more creative housing arrangements might be possible: selling a home and leasing (renting) it back from the new owner under favorable financial terms; or, selling the home and receiving a "life estate" from the new owner to occupy the residence until death.

Life insurance, term or permanent coverage, is purchased to provide a death benefit to protect the financial wellbeing of a family or dependent. However, life insurance may also be an available asset for current financial needs. Permanent life insurance coverage, such as whole life or universal life policies, may have accumulated a cash value that can be distributed or borrowed against.

Some life insurance policies have "riders" attached to the coverage. An Accelerated Death Benefit rider allows a patient to withdraw sums of cash from an insurance policy if the individual has been diagnosed with a life-threatening condition.

Important note: Withdrawing funds from a life insurance policy will typically reduce the death benefit that might be available to the designated beneficiary.

Viatical and life settlements refer to the process of selling your life insurance policy to a third-party buyer as a means of gaining immediate funds. The payout is usually a lump sum of cash that has variable tax implications. The key difference between viatical and life settlements is that viatical settlements almost always require the original policyholder to have a significantly shortened life expectancy due to a disease, while a life settlement, in contrast, does not require a limited life expectancy.

The amount of money that a client can expect to receive from a life insurance policy is based on the age of the policy, the client's current age and health status, the type of life insurance, the premium, the quality of the insurance provider, and the total amount of death benefit.