

Life Insurance

There are a number of types of policies, each with a different approach to fulfilling one's needs for life insurance. Key considerations are the *duration* of the need, premium *budget*, and the *purpose* for the need. You will also want to take into consideration your own attitude about buying policies with underlying guarantees versus policies which shift more risk to the policy owner, and issues surrounding finding the best "short-term price" versus considerations of lowest "long-term cost." Your age and your general health may also affect your policy choices.

<i>Policy Type</i>	<i>Duration of need</i>	<i>Premium Budget</i>	<i>Purpose</i>	<i>Dominant Benefit</i>
Term	5-15 years	Low	Short-term protection	Initially inexpensive
Whole Life	15+ years	High	Long-term protection	Guaranteed premiums
Blended Whole Life	15+ years	Medium	Long-term protection	Initially flexible premiums
Universal Life	10+ years	Medium	Long-term protection	Flexible premiums
Variable Life	20+ years	Med-High	Long-term protection	For those with tolerance for risk: an opportunity to direct the investment of policy cash values

Tax advantages, liquidity at death, family benefits ... these are a few of the attributes of life insurance. And, life insurance is a product that can provide a known sum at an unknown time.

"A spouse might not believe in life insurance ... but widows and widowers *always* do."

Key Life Insurance Uses

Life insurance is unique! It can create, add to, or protect an estate with low premiums in comparison to the total death benefit. It also enjoys many tax advantages. Life insurance:

- ***Provides liquid funds to pay death taxes and estate costs*** - Thus helping to avoid the necessity of liquidating valuable assets to pay these expenses. Note that federal estate taxes are due only nine months after death.
- ***Provides funds to help pay off a mortgage at death*** - Can allow our heirs to have a debt-free home.
- ***Provides spouse insurance*** - When analyzing insurance needs, we often forget or underestimate the dollar value of work done in the home by both husband and wife.
- ***Provides funds for college education*** - Either at death, or during life, policy cash values can help pay college costs. Loans or withdrawals, however, will reduce future cash values and death benefits.
- ***Provides funds to repay loans or other debts owed by the decedent*** - Life insurance proceeds can provide cash to pay estate obligations and help provide the survivors with a debt-free start.
- ***Supplements retirement income needs*** - The policy cash values can be used to supplement pensions, Social Security, and other retirement income. Loans or withdrawals, however, will reduce future cash values and death benefits.
- ***Provides funds for an orderly transfer of a business interest at death*** - Business owners may have an agreement to buy the interest owned by a decedent, but lack the cash to pay for the decedent's share of the business.
- ***Provides funds for a business at the death of a key employee*** - Insurance proceeds can be used to recruit, hire, and train a replacement. The proceeds can also provide working capital to help offset financial losses due to the loss of the key person's services.
- ***Provides funds for charitable giving*** - Life insurance death benefits payable to an organized charity can help provide funds for the charity's work, and may provide tax benefits as well.
- ***Helps equalize inheritances*** - For example, a decedent could leave a business interest to the children who are active in the business, and provide benefits of equal value to other children through insurance proceeds.

Types of Life Insurance - Summary

Term

- **Decreasing Term.** Level premiums and decreasing death benefit. No cash accumulation. Frequently used for short-term, decreasing financial liabilities such as loans.
- **Annual Renewable Term.** Increasing premiums with level death benefits. No cash accumulation. Chief strength is low initial cost for death benefits, particularly beneficial to younger families with limited resources and the need for maximum protection.
- **Level Term.** Premiums level for a stated period of time, usually 5, 10, 15, or 20 years. Level death benefit. No cash accumulation. Frequently used to cover short or intermediate-term obligations.

Participating and Non-Participating Whole Life

Premiums and death benefits are typically level. Provides for cash accumulation. Provides for long-term needs, such as income for survivors. Other uses could include paying off debt and providing liquidity for estate taxes. Policies have required premiums which, if paid when billed by the insurer, provide guarantees of coverage and other benefits. Participating policies may provide dividends which can be taken in cash or used to enhance the policy. Non-participating policies typically provide “current” interest credits and “current” cost of insurance charges that are more favorable than the underlying guarantees. Policies may include “term riders” which result in the popular description of **Blended Whole Life** (i.e., Whole Life blended with Term).

Universal Life

Premiums are flexible; death benefits are typically level. Policy expenses are specifically charged to the policy, after which premiums go to cash values. Current interest credits are declared in advance. Benefits and uses are very similar to Whole Life. If premiums paid are less than those required to maintain the policy over the insured's lifetime, the policy may lapse unless additional premiums are paid.

Variable Life - Universal and Whole Life

Premiums are fixed or flexible depending on Universal or Whole Life format. Cash accumulation is directly affected by the performance of the separate accounts elected by the policy owner, who allocates cash values among various types of investment options such as stock funds, bond funds, money market funds, etc. Cash values may increase or decrease, depending on account performance, timing, and amount of premium payments. Whole Life policies may provide guarantees of policy sufficiency - regardless of cash value performance - if certain minimum premium payment requirements are met.

Disability Income Insurance

Most people have insurance coverage on their homes, autos, etc., but many have not realized the value of their future earnings may far exceed the value of their tangible assets. If their future earnings cease because of an accident or illness, the loss of income could present serious financial problems.

Disability income insurance policies can help replace a portion of the loss of income due to disability during one's working years. The following is a list of features disability income policies can include:

- Non-cancelable, guaranteed renewable provisions.
- Protection against inflation for future benefits paid, referred to as Cost of Living Adjustment (COLA).
- Various elimination periods before benefits begin, typically 30, 60, or 90 days, 6 months, or one year. The longer the elimination period, the lower the premium. A person's liquid reserves, income, and existing disability income insurance must be considered when selecting an appropriate elimination period.
- Some policies provide "Own Occupation" coverage and will pay benefits if those insured are unable to work in their specialized field.
- Policies offer varying benefit periods. Some policies, for example, offer a lifetime benefit if the disability was caused by an accident, and to age 65 for a disability caused by illness. Disability can last for a long time. The longer the period covered by the policy, the higher the premium.
- Disability policies may be purchased by an individual or by a company. Others may be acquired on a group or association basis.

Other types of Disability Income Insurance policies include:

- Key Employee Disability Insurance - When the employer owns the policy, the insurance benefits can provide funds to help cover expenses related to the loss of services of a disabled employee, such as hiring and training a replacement.
- Disability Buy-out - Funds can be provided to help effect a buy-out of a disabled business owner or professional under the terms of a Buy-Sell agreement.
- Business Overhead Expense - If a business owner or professional becomes disabled, these policies can provide funds to help cover ongoing expenses such as rent, employee salaries, etc., to keep the business open during the period of disability.

Of Special Note: Some policies pay benefits when earnings drop by a certain percentage due to a disability. Others require a physician's certification to pay or continue benefits. Also, some policies provide for partial or residual disability benefits where the insured can perform some, but not all of their duties. Policy language and provisions should be carefully reviewed.

Long-Term Care

What is long-term care? Long-term care goes beyond medical care and nursing care to include all the assistance you could need if you ever have a chronic illness or disability that leaves you unable to care for yourself for an extended period of time. You can receive long-term care in a nursing home, assisted-living facility, or in your own home. Though older people use the most long-term care services, a young or middle-aged person who has been in an accident or suffered a debilitating illness can also need long-term care.

Are you likely to need long-term care? You may never need long-term care. But about 19 percent of Americans aged 65 and older experience some degree of chronic physical impairment. By the year 2020, 12 million older Americans will need long-term care. Most will be cared for at home; family members and friends are the sole caregivers for 70 percent of elderly people. But a study by the U.S. Department of Health and Human Services indicates that people age 65 face at least a 40 percent lifetime risk of entering a nursing home. About 10 percent will stay there five years or longer. While certainly older people are more likely to need long-term care, your need for long-term care can come at any age. In fact, the U.S. Government Accountability Office estimates that 40 percent of the 13 million people receiving long-term care services are between the ages of 18 and 64.

What does long-term care cost? Long-term care can be very expensive and the real amount you will spend depends on the level of services you need and the length of time you need care. One year in a nursing home can average more than \$50,000. In some regions, it can easily cost twice that amount.

Who pays the bills? For the most part, the people who need the care pay the bills. Individuals and their families pay about one-third of all nursing home costs out-of-pocket. Generally, long-term care isn't covered by the health insurance you may have either on your own or through your employer. What about the government? Generally, neither Medicare nor Medicaid cover long-term care. People over 65 and some younger people with disabilities have health coverage through the federal Medicare program. Medicare pays only about 12 percent for short-term skilled nursing home care following hospitalization. Medicare also pays for some skilled at-home care, but only for short-term unstable medical conditions and not for the ongoing assistance that many elderly, ill, or injured people need. Medicaid - the federal program that provides health care coverage to lower-income Americans - pays almost half of all nursing home costs. Medicaid pays benefits either immediately, for people meeting federal poverty guidelines, or after nursing home residents exhaust their savings and become eligible. Turning to Medicaid once meant impoverishing the spouse who remained at home as well as the spouse confined to a nursing home. However, the law permits the at-home spouse to retain specified levels of assets and income.

What are the types of long-term care policies? Several types of policies are available. Most are known as "indemnity" or "expense incurred" policies. An indemnity or "per diem" policy pays up to a fixed benefit amount regardless of what you spend. With an expense-incurred policy, you choose the benefit amount when you buy the policy and you are reimbursed for actual expenses for services received up to a fixed dollar amount per day, week, or month. Today, many companies also offer "integrated policies" or policies with "pooled benefits." This type of policy provides a total dollar amount that may be used for different types of long-term care services. There is usually a daily, weekly, or monthly dollar limit for your covered long-term care expenses.

What do long-term care insurance policies cover? Long-term care services are provided when a person cannot perform certain "activities of daily living" (ADLs), or is cognitively impaired because of senile dementia or Alzheimer's disease. Most commonly the ADLs used to determine the need for services include bathing, dressing, transferring (getting from a bed to a chair), toileting, eating, and continence.

What is not covered? All policies contain limits and exclusions to keep premiums reasonable and affordable. These are likely to differ from policy to policy. Before you buy, be sure you understand exactly what is and is not covered under a particular policy.

*Note: Insurance policies are legal contracts. Read and compare the policies you are considering before you buy, and make sure you understand all of the provisions. Marketing or sales literature is no substitute for the actual policy. Read the policy itself before you buy.

Source: A Guide to Long-Term Care Insurance © Revised edition, 2003, 2004 America's Health Insurance Plans.

Medicare

The Medicare program has three parts. Part A is Hospital Insurance (HI), Part B is Supplemental Medical Insurance (SMI), and Part D is the Prescription Drug Plan (PDP). Part A is financed by payroll taxes based on covered work before and after eligibility for Medicare. Part B (SMI) is partly financed by premiums and partly by the general tax revenues of the government. Medicare becomes available at the beginning of the month in which an individual reaches age 65, whether you are retired or still working. It is also available if one has been receiving Social Security disability benefits for two years or has a chronic kidney disorder.

Part A. Hospital Insurance

The amounts you pay for hospitalization change every year, depending on the increases in hospital costs. Amounts shown reflect those in effect for 2010. However, you never have to pay more than the actual charges.

Hospital Stays: On immediate admission the client must pay a deductible. In 2010, it is \$1,110 per stay. After the first 60 days you must pay \$275 per day. After 90 days the co-insurance amount is \$550 for each "non-renewable, lifetime, reserve day." After 150 days, you pay all costs. With each admission, you will need to pay another deductible charge.

Skilled Nursing Facility Care: You may qualify for nursing facility benefits if both your situation and the facility meet Medicare's strict standards. Skilled nursing facility care is available only after a hospital stay of at least three days. It is important to note that custodial care is not covered. If you qualify, you pay nothing for the first 20 days of covered expenses, and for the next 80 days, you pay \$137.50 per day. Benefits stop after 100 days.

Home Health Care: Care such as part-time or intermittent skilled nursing care, physical therapy, medical social services, medical supplies, durable medical equipment and some rehabilitation equipment may be covered if prescribed by a doctor. You pay 20% of the approved amount for durable medical equipment. A hospital stay prior to these benefits is not required.

Hospice Care: The patient can be charged \$5 per prescription and 5% of the Medicare Payment per day for respite care, for no more than 5 days. However, if hospice is selected, all other Medicare benefits stop.

Part B. Supplemental Medical Insurance Benefits

In 2010 you pay for the first \$155 of qualified charges for covered medical services. This is the deductible. After that, Supplemental Medical Insurance will pay 80% of covered expenses, subject to the maximum of the standard charges recognized by Medicare.

Monthly Premium: \$110.50 - Most people will continue to pay the 2009 Part B premium of \$96.40 in 2010. Premium will be higher if your yearly income is greater than \$170,000 for those who file a joint tax return and \$85,000 for those who file an individual tax return. If you pay a late-enrollment penalty, the monthly premium is higher.

Covered Services:

Medicare Part B helps cover what is medically necessary including medical and other services, clinical laboratory services, home health care, outpatient hospital services and blood. In addition, Medicare Part B offers preventive services to help you stay healthy. See Medicare & You for a complete list of covered services.

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Part D. Prescription Drug Plan (PDP)

Medicare offers prescription drug coverage for everyone with Medicare. Medicare will provide coverage to help you pay for both brand-name and generic drugs you need. To get Medicare prescription drug coverage, you must choose and join a Medicare drug plan.

Medicare drug plans will be offered by insurance companies and other private companies approved by Medicare. There are two types of Medicare plans.

- There will be Medicare Prescription Drug Plans that add coverage to the Original Medicare Plan, Medicare Private Fee-for-Service Plans that don't offer Medicare prescription drug coverage, and Medicare Cost Plans.
- There will also be prescription drug coverage that is a part of Medicare Advantage Plans (like a HMO, PPO, or a PFFS Plan) and other Medicare Health Plans. You would get all of your health care, including prescription drug coverage, through these plans.

If you have limited income and resources, you may get extra help to pay for your Medicare drug plan costs.

Your costs will vary depending on your financial situation and which Medicare drug plan you choose. All Medicare drug plans will offer at least the standard level of coverage below. Medicare drug plans may design their plans differently as long as what their plan offers is, on average, at least as good as the standard coverage described below. Some plans may offer more coverage for higher premiums.

Standard Coverage (the minimum coverage drug plans must provide):

If you join in 2010, for covered drugs you will pay

- a monthly premium (varies depending on the plan you choose).
- the first \$310 per year for your prescriptions. This is called your "deductible."

After you pay the \$310 deductible, here's how the costs work:

- You pay 25% of your yearly drug costs from \$310 to \$2,830, and your plan pays the other 75% of these costs, then
- You pay 100% of your \$2,830 in drug costs, then
- You pay 5% of your drug costs (or a small copayment) for the rest of the calendar year after you have spent \$4,550 out-of-pocket. Your plan pays the rest.

Some plans may be called standard plans but may be designed so that the deductible is lower and the coinsurance is slightly higher. Other plans may charge copayments or set amounts instead of coinsurance.

In general, your out-of-pocket costs should work out to be about the same under these plan designs.

Source: Medicare & You 2010, U.S. Department of Health and Human Services and www.medicare.gov