

Life & Health Insurance Advisor

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Life Insurance

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Life Insurance Benefits for the Living

Heart disease and cancer accounted for more than one-half of all deaths in 2004, making them the leading causes of death. For many people, a chronic condition such as heart disease or cancer starts a downward spiral of ill health. A life insurance policy can help you improve end-of-life quality—here's how.

Viatial settlements and accelerated death benefits emerged in the 1980s as a way to help terminally ill policyholders access the cash value of their life insurance to help pay for treatments and end-of-life care. Life settlements evolved as a way to help seniors, who no longer need life coverage, tap into the value of their life insurance policy. By 2007, the Federal Trade Commission estimated the value of

life insurance policies sold on the secondary market at \$45 billion.

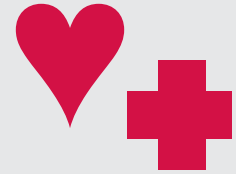
In a **viatical settlement**, a terminally ill policyholder uses a viatical broker to market his/her life insurance policy to investors. If investors purchase the policy, the insured (now the "viator") names them as beneficiaries and owners. The investors agree to pay future premiums and receive the death benefit when the viator dies. In return, the viator receives a lump sum payment.

The amount of the payment a viator will receive usually ranges from 60 to 80 percent of the death benefit. However, this varies depending on how much profit the investors think they can make. The longer a viator lives, the more premium payments they will have to make and the lower their profit. When entering into negotiations for a viatical settle-

ment, the potential viator must be prepared to answer detailed questions about his/her medical condition.

Life settlements differ from viatical settlements in that those seeking to sell their life insurance policies are not ill; they are long-term policyholders who either cannot afford premium payments or think they don't need the coverage anymore. Many are seniors who want to use the cash value built up in their policies to enhance their quality of life.

In a life settlement, an insured can expect to receive more than the policy's cash surrender value (or the amount the insurer would pay if the policy simply lapsed) and less than the death benefit (or face value). As with a viatical settlement, a viatical or life settlement broker handles the transaction, marketing your policy to potential investors and taking a commission from the



This Just In

An NBC2 report in March 2008 discussed the growing problem of medical identity theft. Unlike financial identity theft, medical identity theft can kill you.

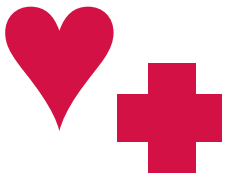
In medical identity theft, an individual undergoes a medical procedure or uses medical services in someone else's name. The charges will be billed to the victim's insurer, but even more importantly, the thief's medical history will become confused with yours.

Linda Foley of the Identity Theft Resource Center in San Diego told NBC2 that medical ID theft has potentially deadly consequences. "Let's say you're going into a doctor's office for appendicitis. You have a sore stomach, and it shows in your medical history your appendix was taken out a year ago laproscopically, which would not leave scars. They're going to stop looking for that particular problem at that point," said Foley.

To prevent being victimized, Foley suggested:

- 1 reviewing medical records and bills for false entries
- 2 following up on false records or bills you receive
- 3 trying to persuade healthcare providers to ask for a second form of identification during office or emergency visits.





Health Savings Accounts: Can They Save You Money?

Health savings accounts (HSAs), introduced as part of the “consumer-driven healthcare” movement, reward consumers for making wise healthcare decisions. If you are relatively healthy, the savings features of an HSA might appeal to you.

Health savings accounts, tax-sheltered accounts from which consumers can pay qualified medical expenses, became available beginning January 1, 2004. To participate in a health savings account, an individual or family must have a “qualified” high-deductible health plan (HDHP) that meets certain requirements.

For individuals, a health plan qualifies as an HSA-eligible HDHP if it has a minimum annual deductible of \$1,100 (\$2,200 for family coverage) and a maximum annual deductible and other out-of-pocket expenses limit of \$5,600 (\$11,200 for family coverage).

HDHPs now encourage preventive care. Some people might balk at switching from a “traditional” health insurance plan, fearing that an HDHP would offer overly

limited coverage. However, changes to the original laws creating HSAs allow insurers to structure qualifying HDHPs to encourage individuals to get the preventive care they need.

Ordinarily, an HDHP requires participants to meet the plan’s deductible before it begins paying benefits. However, most HDHPs cover specific preventive treatments with low or no deductible to encourage insureds not to postpone preventive care. In the individual market, 59 percent of HDHPs cover preventive care outside the deductible, reported America’s Health Insurance Plans, a nonprofit trade and research organization.

Applicable preventive treatments include periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations, such as annual physicals; Pap smears; PSA screenings; routine prenatal and well-child care; child and adult immunizations; tobacco cessation programs; obesity weight-loss programs; and screening services for cancer, heart and vascular diseases. However, preventive care does not generally include any service or benefit intended to treat an existing illness, injury, or condition.

What does this mean for you? When participants receive specified preventive care services, such as an annual physical, they will pay a small deductible or a co-payment rather than having the cost apply toward the policy deductible and paying out of pocket. You can also use funds in your HSA to pay the co-payment. For most people with individual coverage, it makes better financial sense to pay for preventive care through your tax-advantaged HSA account rather than your HDHP, because health insurance premiums are not tax deductible for most individuals (unless they exceed 7.5 percent of your ad-



justed gross income).

Some HDHPs apply an annual limit on first-dollar preventive service coverage. This means that once your policy pays the maximum preventive services benefit—say \$500—further preventive care spending during that year will apply toward your deductible and you will have to pay out of pocket (or your HSA).

HSAs encourage savings. Once you have your HDHP, you may set up an HSA at a qualified financial institution. If you apply for an HSA at a bank, the bank will likely do a credit check. If you have a history of bounced checks, insufficient funds and closed accounts, the bank might decline your application. Some non-banks also offer HSAs. They might not check your financial history; however, their fees will likely be higher.

You can contribute up to \$2,900 (\$5,800 for family coverage) into your HSA for 2008. Individuals age 55 or older can make an additional “catch-up” contribution of up to \$900 in 2008, and up to \$1,000 in 2009 and later. You can deduct these contributions from your taxable income, making your savings dollars go farther.

Furthermore, you control the funds in your HSA and decide how you want to spend them—whether for co-payments, office visits or prescription drugs—or whether you want to let them accumulate to fund healthcare costs during retirement. You can invest funds in your HSA in various investment vehicles, such as stocks and bonds. Earnings will accrue on a tax-free basis. Any withdrawals you make for qualified medical costs will be exempt from tax; withdrawals for non-medical purposes will be subject to income taxation. If you are under age 65, your non-medical withdrawals will also be subject to a 10 percent

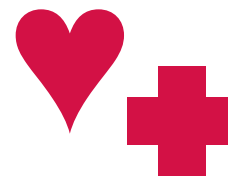
HSA Enrollment Increases

More Than 33%

A survey by America’s Health Insurance Plans, a non-profit trade group, found that enrollment in HSA/HDHP programs grew more than 33 percent between January 2006 and January 2007. In the individual health insurance market:

- * 27 percent of new enrollees were previously uninsured.
- * 46 percent of enrollees were age 40 or older.
- * 25 percent of new purchases of health insurance were HSA/HDHP products. ■

Source: America’s Health Insurance Plans, www.ahip.org



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amount they pay for your policy.

Accelerated death benefits (also known as “living benefits”) are available to life insurance policyholders directly through the insurer. Accelerated death benefits allow a sick policyholder—instead of his or her beneficiaries—to receive a significant portion of the death benefit before death.

To qualify for accelerated death benefits, the insured must have one of the following conditions:

- ✳ A terminal illness, with death expected within 24 months.
- ✳ Acute illness, such as acute heart disease or AIDS, which would result in a drastically reduced life span without extensive treatment.
- ✳ Catastrophic illness requiring extraordinary treatment, such as an organ transplant.
- ✳ Long-term care needed because you cannot perform a number of daily living activities, such as bathing, dressing, or eating.
- ✳ Permanent confinement in a nursing home.”

(Source: American Council of Life Insurers, www.acli.com)

Many life insurance policies include accelerated death benefits or living benefits provisions at no additional charge. If your policy does not include this provision, you may be able to add it in a policy rider. According to the ACLI, you may even be able to add this policy rider after you become ill or disabled.

A policyholder can expect to receive from 25 to 95 percent of the policy’s death benefit as accelerated benefits. The payment you actually receive will vary according to the terms of the policy or rider, the policy’s face value and the laws of your state. Some states limit the percentage of the death benefit that you can accelerate. You might also have to pay the insurer a small service charge.

One of the benefits of accelerated death benefits over viatical settlements or life settlements is that you will be dealing with an insurer you already know and trust, an organization subjected to rigorous regulation and consumer protection laws in all 50 states. The amount of insurance available and the

requirements for receiving a living benefit payment are set forth in federal law.

Policy loans offer another option to the owner of a permanent life insurance policy. If your policy has built any cash value, you can borrow up to that amount from the insurance company at the interest rate specified in the policy. If you die before paying the loan, the insurer will subtract the loan amount, plus accumulated interest, from the death benefit payable to your beneficiaries.

A policy loan offers the further advantage of letting you keep your policy in force. If you decide you need insurance after a life settlement closes, you might not be able to obtain a policy (or one with comparable terms and premiums), depending on your age or health.

Regulations

As with insurance, regulation of viatical and life settlements occurs at the state level. While all states regulate insurance transactions, not every state regulates viatical and life settlements. For a list of states and whether they regulate settlements, see www.lisassociation.org/public/compliance/broker.pl?search=a&order_by=State&order=abc.

Other financial considerations

Before considering either a viatical or life settlement or taking accelerated death benefits, consider the potential consequences carefully.

The passage of the Health Insurance Portability and Accountability Act of 1996 made proceeds from viatical settlements or accelerated death benefits fully excludable from income under certain circumstances. First, the insured must be certified by a physician as terminally ill, or having an illness or physical condition that can reasonably be expected to result in death in 24 months or less. Accelerated death benefits paid on behalf of individuals who are certified as chronically ill are also excludable from income to the same extent they would be if paid under a qualified long-term care insurance contract. However, life settlement payments may be counted as taxable income.

Although amounts you receive from viatical settlements or accelerated death benefits

don’t count toward your taxable income, they could be considered income when determining your Medicaid eligibility. For someone needing nursing home or hospice care, that could be an important point.

Second, certain circumstances may prevent you from accelerating benefits or changing the beneficiary of your policy as required in a viatical or life settlement. For instance, a divorce decree or court-approved property settlement could prevent you from changing your policy beneficiary.

Finally, although you might be able to use your life insurance policy to enhance end-of-life quality, don’t rely on your life insurance policy to take the place of a good long-term care policy. Long-term care insurance is specifically designed to help insureds pay for end-of-life care when needed. ■

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penalty, but no penalty applies to non-medical withdrawals for those age 65 or older.

Other insurance. Generally, HDHPs do not play well with other health plans. Insureds may not have a PPO or other major medical-type plan along with an HDHP. Having a medical FSA may disqualify you from having an HSA, unless the FSA is strictly limited to covering expenses permitted by the HSA, such as vision or dental benefits. However, HDHPs do not interfere with workers’ compensation, tort liabilities or medical payments from automobile insurance and similar property coverages. Additionally, policies covering specific diseases, such as cancer insurance or “dread disease” coverage, or those that provide a per diem benefit for hospital stays, create no conflicts. Similarly, accident, disability, dental, vision and long-term care insurances do not affect your eligibility for an HDHP.

Generally, young healthy people will fare better under HDHP/HSA programs. Older or less-healthy individuals will not benefit as much from an HDHP/HSA. However, the savings feature of these plans might appeal to you, since you can use HSA funds to pay post-retirement medical expenses or COBRA premiums. ■



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Medical discount cards – savings or scam?

Affordable Health Care Plan. Pre-existing conditions? No problem! No Deductible or Co-pays. Thousands of providers in our PPO network. Discounts up to 60%.



Have you heard any of these sales pitches lately? Chances are the ad is for a medical discount card program.

Medical discount card programs have existed for decades, but sales have been increasing lately. Programs promise members discounts on medical (and sometimes dental) appointments and emergency care of up to 60 percent. Anyone can become a “member,” regardless of age or pre-existing condition, so

they appeal to the uninsured.

But are they worth the price? An article in the *Wall Street Journal* said most cards cost between \$40 and \$100 per month. They may also charge administrative fees that might not be clearly disclosed at sale time. And New York’s former attorney general had brought suit against two discount health card marketers for failure to disclose the costs and benefits of their cards. Among other things, the companies charged members pharmacy

dispensing and banking fees, in addition to the monthly membership fee.

Medical discount cards cannot substitute for a health insurance policy. Some programs may provide valuable discounts, but even the best of these programs cannot provide the benefits of an insurance policy.

When you buy an insurance policy (as opposed to a discount plan), your investment is protected by the state’s insurance department, which subjects both insurers and agents to rigorous licensing and oversight. Some discount programs offer legitimate benefits; however, neither salespeople nor discount card companies have to be licensed by the state, since they are not selling insurance.

If the cost of a traditional fee-for-service individual medical plan seems out of reach, we can help you explore the alternatives. These include a high-deductible health plan linked to a health savings account (HSA), a preferred provider plan or even a “mini-medical” plan.

For more information on obtaining quality health insurance coverage, please call us.



Evaluating Medical Discount Card Programs

To determine if a medical discount card is worth the investment, ask yourself the following questions:

- Will I pay the company anything besides the monthly membership fee? If yes, what are the charges for and how much are they?
- What providers (physicians, pharmacies, hospitals, emergency rooms) in this area accept the cards? Are they under contract to accept the cards, or can they change their policy without notice?
- Are discounts through this program the lowest available? Often, medical providers will discount services for

patients who lack insurance. These discounts may equal any discounts available through card programs.

The U.S. Federal Trade Commission (FTC) makes the following recommendations:

- Look for a telephone number or Web site of the company you’re considering doing business with so you can get more information.
- Before you pay any money, ask the company for a list of providers who participate in its plan. Call the providers and ask about the services and discounts they’re offering.

- If the plan doesn’t provide a list of providers promptly, consider taking your business elsewhere.
- Investigate the details of any plan carefully. Read the fine print, paying special attention to the refund policy. If a plan doesn’t readily provide information and answers before you buy, it isn’t likely to be responsive once they have your money.
- Call your local consumer protection office, state attorney general, or Better Business Bureau to find out whether there are complaints about the business offering the discount plan. ■