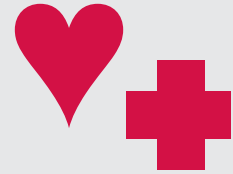


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Medical Insurance

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Short-Term Medical Insurance: Coverage for Life's Transitions

Many life-changing events occur in June: graduations, new jobs and weddings. These transitions can also bring changes in your health insurance coverage. If you or a family member need coverage to take you through life's transitions, short-term medical insurance offers an option.



Young adults from ages 19 to 29 now make up the fastest-growing group of uninsured Americans. The Commonwealth Fund, in testimony to Congress earlier this year, reported that uninsured rates jump sharply at age 19, rising to 30 percent, from 11 percent among children age 18 and under.

This problem stems from the way small and medium group health plans define eligible dependents. Most states require small and medium employer group plans to provide coverage to dependent children only to age 19, or to age 23 if enrolled as a full-time student.

Others besides recent gradu-

ates can lose their health coverage. These include laid-off employees, new employees waiting for their employer's coverage to take effect and retirees waiting to become eligible for Medicare.

The short-term health medical insurance option

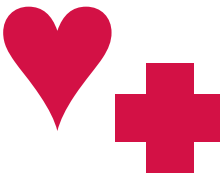
As the name implies, short-term medical (STM) insurance provides coverage for only a

This Just In

Do you have a child graduating from high school or college? Most states require small and medium employer group plans to provide coverage to dependent children only to age 19, or to age 23 if enrolled as a full-time student. However, several states have expanded eligibility to unmarried children up to either age 24 or 25 (up to 30 in New Jersey), whether they are full-time students or not. These states include Colorado, Delaware, Idaho, Indiana, Maryland, Massachusetts, New Hampshire, New Jersey, New Mexico, Rhode Island, South Dakota, Texas, Utah and Washington.

Specific eligibility requirements and coverage terms vary by state; for more information see State Coverage Initiatives, an initiative of the Robert Wood Johnson Foundation, at www.statecoverage.net/matrix/dependentcoverage.htm. If your child is not eligible for coverage under your group plan, a short-term health insurance policy can provide needed coverage at reasonable cost.





Why Group Disability Benefits May Be Lower Than You Think

According to the Bureau of Labor Statistics, nearly all employees eligible for an employer-provided short-term or long-term disability income program participate. Disability income insurance is a valuable benefit. However, the value of your group disability benefits might not be as high as you think. Read on to find out why.

pre-tax dollars, any benefits you receive will count as taxable income. That will reduce any benefit you expected to receive by whatever your income tax rate is. So if you have a policy that pays \$10,000 per month and are in the 33 percent tax bracket, you will net only \$6,600 in benefits. The tax savings you enjoyed while healthy and able to work could end up costing you thousands in benefits...when you need them most.

Solutions

Solution 1: The IRS allows eligible employees to make an irrevocable election to have the employer pay for their disability coverage on an after-tax basis. In other words, you will be taxed currently on the premiums your employer pays, but any benefits you receive from the policy will not be taxed as income.

This election applies to the entire cost of coverage, so you cannot elect after-tax treatment for only a portion of the premiums. If you elect after-tax treatment, the employer allocates the appropriate proportion of the group premium to you and includes that amount in your gross income for the year in which the payments are made.

If you have a disability within three years of making an election, the “three-year look back” rule applies. This means the portion of any benefits you receive that is attributable to employer contributions shall be considered taxable income; the portion attributable to

your after-tax contributions will not be considered taxable income.

Solution 2: You can supplement your group disability coverage with an individual long-term disability policy. Since you pay premiums on an individual policy with after-tax dollars, any benefits the policy pays will not count as taxable income.

Individual policies provide additional advantages. They don’t depend on your employment status and are fully portable if you leave your current job. You can often obtain higher monthly benefits than with group policies. Individual policies often have more liberal definitions of disability, which could mean higher claims payments in the event of a disability. Most offer additional options, or riders, that can enhance your coverage. And buying and maintaining individual coverage guarantees your insurability for the rest of your working years.

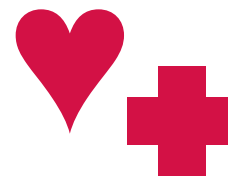
Most policies contain a “coordination of benefits” (COB) provision, which entitles the insurer to coordinate benefits under its policy with benefits you may receive under a group policy or other coverages. This prevents disabled policyholders from getting a windfall where their post-disability income is higher than their pre-disability income, creating a disincentive to return to work.

For information on some of the features and advantages of an individual disability income policy, please call us. ■

When you receive long-term disability coverage through an employer-paid group program, the value of the premiums does not appear on your W-2 as taxable income. Business owners who have their company buy their coverage can enjoy even more tax savings, depending on their business structure—the business can deduct the cost of premiums as a business expense, while the value of the benefits is not considered personal income.

Everyone likes to save on their taxes. So as long as you remain healthy, paying for disability insurance with pre-tax dollars makes financial sense. However, if you become disabled and need your benefits, that strategy could backfire. Here’s how.

When you receive or buy coverage with



TRANSITIONS—continued from Page 1

short time — from one month to a maximum of six or 12 months, depending on the plan and state.

Policies vary by carrier and plan. In many ways, STM plans resemble a major medical plan, which covers catastrophic healthcare needs. A typical STM plan might provide:

- * Coverage for hospital, physician and surgical expenses, anesthesia and specified tests.
- * Benefits up to \$2 million per insured.
- * A choice of deductibles—from \$250 to \$5,000. You must spend the deductible amount on eligible medical expenses before the plan will begin paying claims. As with most major medical plans, the plan will pay 80 percent of “reasonable and customary” charges for covered services; you must pay the remaining 20 percent. After the plan pays \$5,000 or \$10,000 in covered expenses, depending on the plan, it will pay 100 percent of covered expenses.

Advantages of STM

- * Coverage can start almost immediately. The application process may be simpler

than for other types of individual health plans.

- * Costs are generally lower than COBRA coverage. A pricing survey released in March 2004 found that those who bought individual STM between August 2003 and March 2004 paid an average of \$57 per month in premiums, while those who bought a family plan paid an average of \$153 per month. Naturally, costs have gone up since then, but STM still costs less than an individual major medical plan.

Disadvantages of STM

Despite the cost savings, short-term medical plans have some significant drawbacks:

- * They do not cover pre-existing conditions. This includes any condition or complication treated or that produced symptoms five years before the date your short-term medical coverage begins.
- * There is no guaranteed renewability. If you still need short-term coverage when your STM policy expires, you can re-apply. However, the pre-existing condition exclusion still holds, including for

any condition you incurred during the last policy term. (*Note: The pre-existing condition limitation may vary by state.*)

- * Some short-term policies may not count as “creditable coverage” under HIPAA. HIPAA, the Health Insurance Portability and Accountability Act of 1996, protects the rights of insureds by limiting exclusions for preexisting conditions and guaranteeing renewability of individual policies, among other things. To qualify for HIPAA protections, an insured must have creditable coverage with no gaps exceeding 62 days. To be sure your STM plan counts as creditable coverage, ask the provider if it will issue a certificate of creditable coverage when the policy ends. If you have this certificate when you obtain coverage under a new plan, the plan cannot exclude a preexisting condition.
- * They provide little or no coverage for preventive care.

Still, for young and/or relatively healthy individuals, STM provides valuable coverage for transitions. We can help you evaluate the policies available—for more information, please call us. ■

The COBRA Option for Continuing Health Coverage

If you or a dependent are about to lose coverage under a group health plan, your best option may be to buy COBRA continuation coverage, if eligible. Generally, COBRA allows participants in an employer group medical plan that covers 20 or more employees to continue their coverage for up to 18 months after a “qualifying event.” These include becoming too old to be considered a dependent under the plan, along with other life changes, such as job termination, divorce or death of the covered employee. (For more details, see “COBRA: Coverage for Transitions” in our March 2008 issue.)

COBRA allows you to continue in the same health plan, using the same providers. More importantly, it counts as “credit-

able coverage” under HIPAA, the Health Insurance Portability and Accountability Act of 1996. Having creditable coverage under HIPAA protects your rights to coverage by:

- * Limiting exclusions for preexisting conditions.
- * Guaranteeing access to individual policies for those who qualify.
- * Guaranteeing renewability of individual policies.

However, COBRA coverage can cost a lot. Employers can charge up to 102 percent of the premium. (The extra 2 percent goes toward administrative expenses). ■





Using Life Insurance to Help Your Business Live On

Experts estimate that more than half of all business owners over the age of 60 do not have a formal business continuation plan. Life insurance can help ensure your business lives on after the retirement or death of an owner or partner—here's how.

Every business needs a continuation plan that spells out, in writing, how the business will continue to survive after an owner's retirement or death. For a sole proprietorship, the plan should name the successor the owner chooses to run the business.

For a partnership, the plan should include a buy-sell agreement. In a buy-sell agreement, two or more partners give each other the right to purchase the interest of any owner or partner who dies, retires or becomes disabled and unable to work. A sole proprietorship might

need a buy-sell agreement as well, to ensure that any of the owners' heirs who are not going to be involved in running the business get their share of the business's value.

You can structure a buy-sell agreement so the individual owners can buy the interests of withdrawing partners (a cross-purchase arrangement), or the business itself can buy them (an entity purchase or stock retirement arrangement), using business funds. Cross-purchase agreements have become the preferred method of buy-sells, due to tax considerations.

To execute a buy-sell agreement, you'll need to have funding available shortly after the business owner's retirement or death. That's where life insurance comes in.

Life insurance offers significant advantages over other forms of funding. First, when a business buys a policy on its owner and pays premiums with after-tax dollars, the benefit is tax-free, maximizing the

funds available for buyouts. Second, life insurance proceeds become available shortly after the death of an owner—unlike other, less liquid assets.

To determine how much life insurance you'll need to fund your buy-sell agreement, you'll need to determine the value of your business—no easy task. An accountant or financial planner may provide assistance. For difficult cases, though, using a certified valuation appraiser will ensure a more accurate value.

After you determine the value of the business, the business can buy a life insurance policy on the owner(s) or partner(s) for the amount survivors will need to buy their interest.

We can help you secure the life insurance coverage needed for buy-sell and other business continuity needs, such as "key person" life insurance. For more information, please call us. ■

Optional Coverages Under Individual Disability Plans

Individual disability income insurance plans offer more features than group plans. Most give you the option of purchasing additional coverages, or riders, for your policy. Typical riders include:

Cost of Living Adjustments (COLA). COLA prevents inflation from eating away at your benefits by automatically increasing your benefits every year (generally starting after the first year of disability). Insurers either base the increase on the increase in the Consumer Price Index or a predetermined percentage.

Guaranteed Insurability Option. This rider lets you buy higher benefits as your income grows, even if

you develop a condition that would otherwise bar you from eligibility.

Residual Benefit. This pays you a portion of your monthly disability benefit if your income drops because of disability.

Social Security Rider. If you are disabled and don't qualify for Social Security benefits under the Social Security Administration's definition of disability, this rider will pay you additional benefits.

For more information on individual disability income insurance, see Page 2. ■