Life & Health Insurance Advisor

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Insured and Broke: The Problem of Underinsurance

Unfortunately, having health insurance doesn't mean you'll be able to afford the out-of-pocket expenses not covered by your insurer.

The Commonwealth Fund released a survey in 2014 that found 31 million adults aged 19 to 64 were underinsured. It defines an underinsured person as someone whose out-of-pocket medical expenses — not including premiums — are 10 percent or more of their household income. Another way to determine whether someone is underinsured is if their income is under 200 percent of the federal poverty level and their out-of-pocket costs equal five percent or more of their household income.

Underinsured people not only risk financial ruin, they have greater health risks, since they're usually less likely to seek medical at-

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Don't Let Life Insurance Benefits Go Unclaimed!

When a relative or close friend passes away, there's a lot of paperwork to go through, and it's easy to miss something important — like a life insurance policy. Fortunately, there's now an easy way to make sure you don't miss something.

The National Association of Insurance Commissioners (NAIC) has launched a new national database that allows you to find out whether you're owed money from a deceased loved one's life insurance policies or annuity contracts.

Go to https://eapps.naic.org/life-policy and fill out a request form. You must declare you have made a diligent search of records

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tention. To avoid this situation, know what you're purchasing when you choose a health insurance plan.

Beyond Premiums: Your Plan's Real Costs

When you purchase health insurance, you choose among plans with different actuarial values. Actuarial value is the percentage of covered expenses that an insurance policy will pay. A plan with 60 percent actuarial value means the policy will pay for 60 percent of your covered medical expenses; you'll pay the remaining 40 percent. The difference is called coinsurance. On the Affordable Care Act's insurance exchange, a bronze plan provides 60 percent actuarial value, a silver plan 70 percent and a gold plan 80 percent. Plans with higher actuarial values will pay more when you have a claim, but you'll pay higher premiums every month.

In addition to the coinsurance, you'll also have a deductible. A deductible is the amount of money you have to pay before the insurer will pay its portion of covered expenses. Except for certain preventive services that have "first dollar" coverage, you'll pay 100 percent of your medical and drug expenses until you meet the deductible. After you pass that hurdle, your insurance company shares the costs with you, although you still must pay coinsurance.

The deductible ensures the insured has "skin in the game" and understands the costs associated with receiving medical care. Without a deductible, an insured person might say yes to every test and procedure, regardless of need or usefulness. Higher deductibles discourage unnecessary medical expenditures.

Even after you meet your deductible amount, you'll continue to have coinsurance for using medical services, such as visiting the doctor, going to the emergency room or buying prescription drugs. Remember, the lower the actuarial value of your plan, the higher your coinsurances.

The good news is that the Affordable Care Act limits how much you pay from your own pocket. For 2017, a family that does not have a grandfathered plan will pay no more than $14,300 and an individual won't pay more than $7,150 out of pocket. Once you reach the out-of-pocket limit, your insurance will pay 100 percent of covered charges. Out-of-network charges have no out-of-pocket cap.

What to Look for in a Health Plan

To ensure that your out-of-pocket costs are less likely to bankrupt you, consider more than just the cost of premiums when you're comparing health plans.

First, make sure you don't just automatically re-enroll in the same plan year to year, although many people do. Insurance company Aflac commissioned a study that found nine out 10 employees stay with the same plan from one year to the next. Instead, review your choices to see what has changed, which could include the benefits, premiums, cost of prescriptions or doctors you have access to.

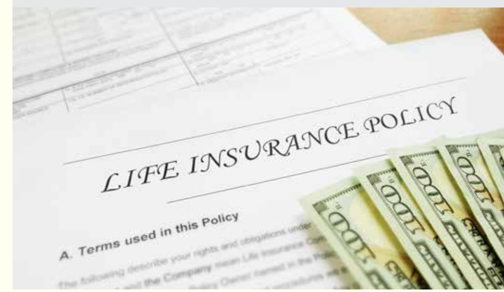
Next, look at how much you and your family spent on out-of-pocket health expenses during the past year. That will give you a good idea of what you might need to spend in the coming year.

Finally, check the deductible, which can range from $500 to $5,000 or more. If you think you'll be spending a lot on healthcare expenses, you can come out ahead in the long run by paying higher premiums for a lower deductible.

If you have a plan with a high deductible or low actuarial value, a critical illness policy or hospital indemnity plan can provide extra cash to cover your out-of-pocket expenses. Please contact us for more information.

to see if the deceased left a policy or contract. You'll need to know the deceased's date of birth, date of death and Social Security number.

Once NAIC receives your request, it will work with participating life insurance companies to search their records to determine whether you are the beneficiary of a policy or contract. If NAIC finds life insurance proceeds, you may have to provide additional information, including a notarized death certificate and documentation of your legal authority to request and obtain information about the deceased person.



How to Be Financially Fit

Twenty-eight percent of participants in a 2015 LIMRA Insurance Barometer Study have no confidence in their ability to make important financial decisions. If that sounds familiar, a financial wellness program can help.

Financial wellness programs take a holistic approach to finances. Gone are the days when financial wellness meant simply looking at credit card debt and savings for retirement. Today's plans also take into consideration diagnostics, education and coaching.

Many employers offer financial wellness programs to their employees, but you can do your own financial checkup by examining several important aspects of financial wellness:

Tracking – First, find out how much money you have and how you spend it. A tracking tool can help you do that. It can be as simple as keeping a spending notebook or as detailed as creating a budget spreadsheet. There are online tools you can use, too, such as Mint, a well-known internet and smartphone budgeting application.

Budgeting – Once you know what you make and where it goes, budgeting can prioritize your spending. It helps you focus on the things that are important to you — such as having enough money for repairs on the house, vacations or college for your children. It also can help you plan ahead so you can know in which months you'll need extra money.

Managing Debt – It can be scary if you're deep in debt, but you can take steps to pay off your bills. You can set up a monthly bill payment calendar and make sure you're paying more than your credit cards' minimum payment. If you need guidance, you can work with a credit counseling agency to design a payment plan, debt consolidation, debt settlement or bankruptcy.

Investment Planning – A financial advisor can provide advice on investment management, income tax preparation and estate planning. Fee-based advisors should have a Series 65 license to conduct business.

Many advisors require you to have $500,000 or more in assets before they will work with you. If you don't have enough assets to hire an advisor, you can talk to a financial planner. Financial planners have a variety of backgrounds and provide a variety of services. Some assess every aspect of your financial life — including saving, investments, insurance, taxes, retirement, and estate planning — and help you develop a detailed strategy for meeting all your financial goals. Other professionals call themselves financial planners, but they may only be able to rec-

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ommend investments in a narrow range of products.

Retirement Planning – If your company has a 401(k) plan, check with your human resources department for resource sheets, calculators or for the name of the plan's advisor. People who don't have access to a 401(k) can open an IRA (individual retirement account). Annuities can also play an important role in a retirement plan. They provide a fixed income for the term you select, whether it's a period of years or your lifetime. Buying a lifetime annuity ensures you'll never outlive your income.

Self-assessment – Your answers to self-assessment questions will give you a clearer picture of your financial wellness. You'll be asked to rate your response to questions such as "My income exceeds my expenses" or "I have an emergency savings fund." You can search for these assessments online by searching "Financial Wellness Assessment."

Saving for College – Tuition for the 2016-17 school year averaged $24,610 for a public college and $43,320 for a private college. According to the College Board, costs have increased about five percent over the past 10 years. This should give you an idea of how much to save before your child reaches college age. Remember that scholarships can reduce the amount of money you will need.

Health Insurance – The Affordable Care Act requires all citizens to have health insurance. It's also good sense to maintain coverage to protect your budget from paying catastrophic medical bills out of pocket.

Life Insurance – Everyone with dependents should have enough life insurance to ensure their heirs can pay off debts and continue their lifestyle in the event of an untimely death. Permanent, or "whole life," insurance, also includes a savings component, or cash value. You can borrow the cash value with no tax consequence. Any amounts you do not pay back will be deducted from the policy's death benefit.

Disability Income Insurance – How long could you pay your bills and continue your current lifestyle if your income stopped? During your working years, you're more likely to become disabled than to die. Disability income replaces a portion of lost income if you cannot work due to disability.

Security Protection – If you pay your bills online or keep personal information on your personal computer, make sure hackers don't have access. The more security layers you employ, the safer you'll be. You can install a firewall, antivirus software or anti-spyware software; use complex and secure passwords; and check your browser security settings.

Education – If you're truly interested in being financially sound, increasing your financial knowledge will help. You can read finance books at the library, take college courses, or subscribe to newsletters and other publications about money and finances. Or call us for advice.

Long-Term Care Insurance Carriers Face Challenges

Many Americans have bought long-term care insurance to pay for nursing home care in later years. Unfortunately, many insurers underestimated the cost of providing long-term care benefits. As a result, many have increased premiums dramatically, and many stopped offering coverage altogether.

Penn Treaty American Corp. plans to liquidate two of its insurance units. The units have combined assets of $600 million and liabilities likely to reach $4 billion, which would make this the second-largest life/health insurer insolvency in the nation's history.

Pennsylvanians who had Penn Treaty long-term care policies had to weather premium increases as high as 130 percent. Currently, Penn Treaty has about 79,000 long-term care policyholders. Although guarantee funds protect policyholders when insurers become insolvent, most states cap the amount payable. This means about 10 percent of Penn Treaty policyholders will not receive the full value of their promised benefits.

Past

Insurers began selling long-term care insurance in the 1990s. They intended the insurance to cover the cost of personal aides and extended nursing-home stays that Medicare, the federal health-

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insurance program for the elderly, wouldn't cover. Medicaid programs only pay nursing home costs for the very poor.

But actuaries underestimated the costs of covering long-term care. In part, actuaries miscalculated life expectancy. *The Wall Street Journal* reported that in the 1990s, insurers thought the average 65-year-old male would live an additional 18.1 years. In reality, it's more than 21 years. This means insurers have to cover nursing home costs longer than expected.

In addition, insurers calculated that 5 percent of policies would lapse before policyholders made a claim. Instead, only one percent of policyholders let their policies lapse. Customers believed their policies were valuable and kept them as an investment in the future.

Another problem: interest rates didn't rise 7 percent as insurers expected, but only 3 percent. They stayed low mainly because the Federal Reserve kept rates near zero after 2008.

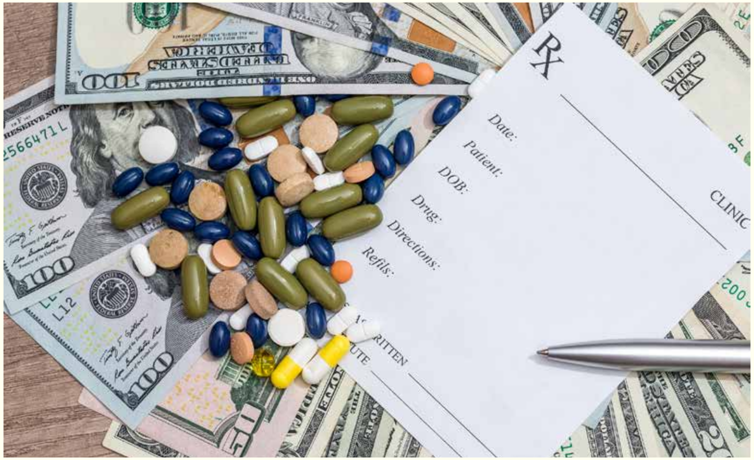
Insurers have tried to make up for their miscalculations by requesting higher premiums in recent years. Some states have allowed double-digit-percentage increases, but not all insurers have been able to increase rates enough to make the insurance line profitable. Many that stayed in business saw sales and renewals decrease. Often, only the unhealthiest people will continue to pay premiums when they increase dramatically, which leads to higher claim costs. Some insurers went out of business as a result.

Your Options

If you don't have private long-term care insurance, don't rely on Medicare. Medicare does not pay for ongoing long-term care. Instead, investigate these options:

- **Short-term Care Insurance** – This is similar to long-term care insurance, but usually caps benefits at one year. It is less expensive and easier to qualify for.
- **Combined Life and Long-term Care Insurance** – This coverage pays for nursing homes, assisted living or home health care. If you haven't maxed out your benefit, it pays your survivors a partial death benefit. If you never use the policy to pay for care, the insurer will pay the entire benefit to survivors.
- **Pensions** – If your employer put money into an investment fund for your retirement, you can use it for long-term care.
- **Social Security** – Your monthly payments can be used for long-term care needs, but may not be enough to handle all the costs.
- **Long-term Care Annuities** – Money set aside in this type of annuity grows tax-free. To start one, you need a minimum of $50,000. You then choose the amount of long-term care coverage, usually 200 or 300 percent of the face value of the annuity. You also decide whether you want inflation coverage and how long you want coverage to last. You will have to pay taxes when you withdraw the money. If you don't withdraw the money for long-term care, you can redeem it for its accumulated value when it matures at 20 years. When you die, your heirs will inherit any remaining value.
- **Home Equity** – If your home has gained in value, you can sell your house or take out a reverse mortgage, a loan on the equity of your home.
- **Health Savings Accounts** – If you're employed and have high-deductible health insurance plan and a Health Savings Account, any money you contribute to the account can be used for medical expenses and long-term care.
- **Medicaid** – This is a last resort option available when you've depleted all your assets. The government will pay for nursing home care, but not assisted living. Any money left from your estate after you die will go to the government to reimburse your Medicaid costs.

Saving Money on Prescriptions While on Medicare



Original Medicare, the federal health insurance program for seniors, does not cover prescription drugs. If you want coverage, you can buy a Medicare prescription drug (Medicare Part D) plan through a private insurer. Medicare Advantage policyholders typically have prescription drug benefits.

Medicare Part D and Medicare Advantage plans most likely will not cover all your prescription drug costs. Here's how you can save money:

- Shop around – Compare your policy premiums to those of other companies.
- Check the formulary – Prescription plans have formularies, or lists of drugs they cover and the various tiers of coverage. Check the formulary for any drugs you regularly take.
- Check the tier – Insurers separate their formularies into tiers by cost and other factors, such as proven effectiveness.
- Opt for copayments if possible – Your plan probably requires either copayments or coinsurance. Copayments are flat fees you pay whenever you buy a prescription drug. Insurers charge lower copayments for generic and proven drugs to steer consumers towards those drugs vs. brand-name or experimental drugs. Coinsurance requires you to pay a percentage of the total prescription cost, which can be quite high depending on the drug.
- Use generics when possible – Generic drugs cost much less than their brand-name counterparts, which can often save you 80 percent or more.

When to Sign Up

You are eligible to sign up for Part C or D (Medicare Advantage or Medicare Part D) coverage during a seven-month window, which starts three months before you turn 65 and ends four months after your birthday.

If you fail to enroll during this period, you could end up paying a late fee, which is permanently be added to your premiums if you go 63 or more days without prescription drug coverage after becoming eligible. You premium could be increased about one percent for every month you go without creditable drug coverage.

If you're 65 years old or older and already enrolled in Medicare Part D, it is too late to switch coverage for 2017. You must wait for the next open enrollment Oct. 15 to Dec. 7, 2017.