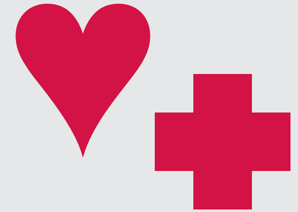
Life & Health Insurance Advisor

POMEROY & ASSOCIATES

3134 N. 7th Street, Phoenix, Arizona 85014 | (602) 265-8900 Main (602) 230-0398 Fax | info@pomeroygroup.com



Life Insurance Spring 2020 Volume 13 • Number 1

How Life Insurance Works in Divorce Settlements

Of the two main types of life insurance, permanent and term, only permanent is usually a significant part of a divorce settlement.

Permanent life insurance — whether whole life or universal life — provides coverage for the lifetime of the insured as long as premiums are paid, though Universal allows greater flexibility in terms of payments and death benefits. The biggest distinction is that with whole life, savings grow at a guaranteed rate; with Universal life insurance, savings vary depending on the premium structure and market performance.

During divorce proceedings, attorneys and the court will investigate whether the couple has permanent or term life insurance, and the extent to which the insurance is needed as part of the settlement.

continued on next page

What MACRA Means to Medicare Recipients

If you have Medicare coverage, check to see if your Medicare card lists your Social Security Number (SSN), because if it does, your claims will be rejected.

The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) requires the Centers for Medicare and Medicaid Services (CMS) to remove SSNs from all Medicare beneficiary ID cards and issue new cards with a Medicare Beneficiary Identification (MBI) number. The Act required CMS to accomplish this by April 2019. The new MBI should help to better protect users' private health care and financial information, as well as federal health care benefit and service payments.

continued on next page

Term Insurance

Term life, which lasts for a set period, has lower premiums than permanent, but no cash value. Because it has no cash value, it's not usually considered an asset when dividing property during the divorce process.

However, there is an exception. In some states, if one spouse is ordered by the court to provide life insurance, and that person is uninsurable but has a term-life insurance policy, the existing policy may be considered a marital asset.

Beneficiaries

When a life insurance policy is considered an asset in the divorce, the divorce will not automatically change the policy owner, the insured, or the policy beneficiary. However, the final decree may include language that invalidates a spouse as a beneficiary under a policy, or stipulates that the parties take specified actions with respect to obtaining or changing existing life insurance policies. For example, final decree can also specify that joint or survivorship policies be split into separate policies for each spouse.

Unless otherwise specified by the court in the final decree, divorcing couples can make changes as to who the beneficiaries are. For example, if a husband owns a life insurance policy that insures him and lists his soon-to-be ex-wife as the beneficiary, the husband can change the beneficiary. Again, however, the divorce agreement may say otherwise. The judge might have agreed to constrain the husband from changing the beneficiary if the husband owes the spouse alimony or child support.

The cash value of a permanent life policy will often be part of the settlement. But if it's not part of the settlement, it may also be a source of funds to help with divorce-related expenses.

Ex-spouses May Be Required to Purchase Insurance

Divorcing couples who don't have permanent life insurance might want it stipulated that the ex-spouse purchase it to protect alimony payments, child support payments and pension or retirement funds. This is one way to ensure that those financial obligations are met even if the breadwinner dies.

If a divorce decree is issued requiring court-ordered life insurance, the ex-spouse, who is paying for the policy, usually will receive a deadline. If so, it's best to apply for the insurance immediately because it can take four to six weeks to get a signed policy.

In these situations, both ex-spouses need to work together along with their attorneys to set up the policy to: decide who will be the owner; the term, the coverage amount and who will pay the premiums. Attaching riders to the policy may also be considered, such as adding a long-term care rider to the policy to pay for in-home or nursing home care.

Once the details are finalized and the policy is obtained, a signed copy of the application must be provided to the court as proof of compliance.

MACRA is the biggest change to physician reimbursement since Medicare was signed into law by President Lyndon Johnson in 1965.

MACRA also:

- **Repeals the Sustainable Growth Rate formula**
- **Changes the way Medicare rewards clinicians, emphasizing value over volume**
- **Streamlines programs under the new Merit Based Incentive Payments System**
- **Gives bonus payments to providers that participate in alternative payment models (APMs)**
- **Gives awards to seven applicants for their financial and technical support of the Quality Payment Program, which is an incentive program that focuses on providing clients with quality care instead of volume of care.**

The downside of these changes is that there will be major increases in premiums for some plans, in particular Medicare supplement plans G and F. Plus, more increases will follow as a greater percentage of the population ages (the "Silver Tsunami") and more people reach Medicare eligibility.

For help understanding how life insurance can be a resource for financial planning and special situations, please contact us.

Life Insurance and the High Cost of Vaping

Is vaping safer than cigarettes? Insurance companies don't think so.

Smokers pay higher rates for life insurance, and while vaping might seem less dangerous than smoking, life insurance companies charge vapers the same high rates as they charge smokers.

Vaping is a form of nicotine delivery that doesn't produce smoke. The basic vaping device, or e-cig, has a coil, battery, tank and juice. When a vaper inhales from the device, the battery heats the coil which atomizes the e-juice in the tank.

This process can create undesirable byproducts. It's important to note that e-juice doesn't contain tobacco, although it does contain nicotine. The levels of nicotine are typically lower than what is found in cigarettes and typically don't contain many of the dangerous chemicals found in cigarette smoke.

Federal Regulations

However, the U.S. Food and Drug Administration (FDA) ruled in 2016 that e-cigarettes are "tobacco products," and are subject to federal regulation.

In early January, the Trump administration announced that it will prohibit fruit, candy, mint and dessert flavors from small, cartridge-based e-cigarettes that are popular with young people. Though large, tank-based vaping devices, which are primarily sold in vape shops that cater to adult smokers, are exempt. Menthol and tobacco-flavored e-cigarettes though are still allowed to remain on the market.

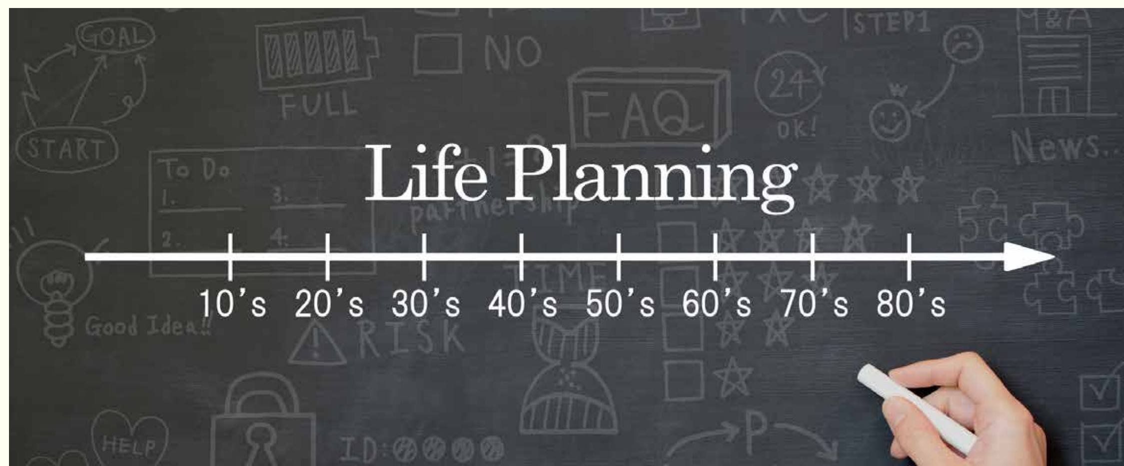
In part, the FDA stance on vaping has led life insurance companies to classify e-cig users as smokers. Insurers have also been concerned about of the lack of any uniform oversight over how vaping products are manufactured and the lack of research done to determine whether vaping is safe. When life insurance companies determine rates, the best/lowest cost classification for a healthy smoker or vaper is Preferred Smoker or Preferred Tobacco.

Unfortunately, the "Preferred Smokers" rate often is more than four times higher than the best preferred non-smoker rate class. For instance, the average monthly premium for a 35-year-old male classified as Preferred Tobacco with a $500,000, 20-year term life insurance policy is $108.72. That same applicant with a Preferred Non-Tobacco classification would pay $31.72.

continued on next page

Retirement Financial Planning: How to Set Realistic Goals

As you get close to retirement, it makes sense to switch your mindset from saving for retirement to creating a financial plan that coordinates your spending and saving habits to achieve your retirement goals.



Prudential's Retirement Preparedness Survey indicates that many retirees' and pre-retirees' goals include traveling; spending more time on leisure activities; starting a business or career; volunteering; or going back to school. A retirement financial plan can help you reach your goal.

The difference between financial planning and retirement planning is the difference between saving and spending. A financial plan focuses on making sure you have a realistic target of how much you'll need after you stop working. It also helps ensure you're investing properly. By comparison, a retirement financial plan focuses, in detail, on your expenses and how to generate an income stream to cover those costs.

Prioritizing Living Expenses/Goals

Be honest about what constitutes a basic living need and what your "dreams" are. You also should factor in inflation and possible health care costs as you grow older.

Once you have an idea of how much money you need for your expenses, there are several tactics you can use to help you stay on track. Here are a few:

continued on next page

Don't Lie about Vaping

If you vape, it doesn't pay to lie about your e-cig use. First, most life insurance carriers require applicants to take medical exams to qualify for a policy. Insurance companies may order tests such as blood, saliva and urine analysis in order to determine whether nicotine is present in your body and whether the source is actual cigarettes or e-cigarettes.

Second, if you misrepresent your nicotine usage, and it's discovered during the "contestability period" that you were a vaper before you died, the life insurance company may refuse to pay the death benefit to your beneficiaries. This rule applies even if you weren't killed by tobacco or nicotine use. Or, the carrier may pay your heirs, but reduce the amount of the death benefit by the amount you would've been paying in premiums as a Preferred Smoker.

If you are a vaper and want a better life insurance rate, your best bet is to stop vaping completely. Most insurers want to see that you're nicotine-free (no vaping, cigar use, chewing tobacco or cigarettes) for a specified period, which can range from 12 months to five years. ■

Tactic: Get an Adviser

You can build a concise financial plan on your own — or you can enlist the help of a professional, licensed financial adviser. If you use a fee-only adviser, you may pay around $1,500 to $2,000 for a retirement plan. However, for many retirees, hiring an adviser often saves money or makes them more in the long run.

Your financial adviser will ask you to gather information about your assets (savings, investments, income) and expenses (typically divided between essential and discretionary). With this information, your adviser will try to project how well you will be able to meet your expected lifetime needs based on your assets and income. Often advisors do what is called a "Monte Carlo projection" to determine the likelihood you will have enough money based on your retirement date and expected lifetime. The program also lets you play with "what if" scenarios to give you an idea of your options.

It's always a good idea to revisit your plan annually when you are in your 70s and older to make sure the plan is still meeting your needs. For instance, you may decide as you get older that you want to provide for your grandchildren or donate to a worthy cause. Legacy planning and charitable giving goals often are priorities for people in this age range.

Tactic: Plan Your Withdrawals

Once you stop receiving a paycheck, you can start withdrawing money from your retirement accounts. Those accounts generally include Social Security, pensions and investment portfolios. To maximize income and minimize tax impact, financial planning experts recommend withdrawing from taxable accounts first, then tax-deferred, then tax-free. This allows your tax-deferred and tax-free assets to grow sheltered from taxes for a longer period. This isn't a "one size fits all" plan, but just a general rule of thumb.

Tactic: Take the Bucket Approach

One way to set a budget for your retirement years is to use the Bucket Approach and split your assets into short, medium, and long-term accounts. The idea behind this technique is to safeguard your portfolio from market fluctuations.

If you are living off your investments and the stock market plummets, you will have a lot less to live on. Instead, you can keep two to three years' worth of living expenses — reduced by your guaranteed income — in cash or cash equivalents. The rest can be invested in riskier assets, such as 100 percent stocks. For instance,

- First bucket: Include cash or very short-term bond investments for two to three years' living expenses.
- Second bucket: Make investments that need three to six years to mature, such as a portfolio with a 50/50 split between stocks and bonds. The assets in this bucket will be used to periodically replenish the short-term cash bucket. This bucket can fund lifestyle goals such as traveling.
- Third bucket: This is your long-term bucket, which may have more investments in stocks, allowing for more growth. Use these funds for your biggest retirement expenses, such as health care.

Tactic: Understand and Plan for RMD

RMD stands for Required Minimum Distributions. If you have qualified retirement accounts such as IRAs, 401(k)s, 457 plans and other tax-deferred retirement savings plans like a TSP, 403(b), TSA, SEP, or SIMPLE IRA plan, you are required to withdraw a specific minimum amount of funds at age 72. Previously it was age 70 1/2, but beginning in 2020, it's 72.

The penalty for not withdrawing a required minimum distribution from an IRA by age 72 is 50 percent. For example, if you are supposed to withdraw at least $4,000 and didn't, you would owe the Internal Revenue Service (IRS) $2,000. Obviously the penalty is severe, so be careful.

Please contact us if you have questions.

How Accident and Disability Insurance Differ

Accident insurance and disability insurance might sound similar, but they have different, though complementary objectives.

Accident insurance pays a lump sum if you incur a specific kind of injury. Disability insurance pays you a monthly sum if you become disabled. Short-term disability benefits usually last 13 or 26 weeks, while long-term disability benefits can last the duration of the illness or injury.

Accident insurance complements disability insurance by allowing you to claim benefits even if the injuries you incur do not keep you from working. For example, if you have both types of coverage and you fall and break your arm, you could receive a one-time accident insurance cash payment to help with treatment costs as well as weekly replacement income from the disability coverage if you are unable to work.

Accident insurance pays a set number of times for the types of accidents listed in the policy. The types of accidents covered depend on the insurance company's policy schedule of benefits, so it's important to make sure you understand exactly what types of accidents or injuries are covered. The categories covered usually include dislocation, laceration, concussion, fracture, eye injury, burns, dental and accidental death and dismemberment. Particular types of injuries are covered under each category. If your injury isn't listed, the insurance company won't cover it.

This type of policy can be particularly helpful if you have a High Deductible Health Plan (HDHP). An accident insurance payment can help with out-of-pocket expenses for emergency room fees or outpatient visits.

A downside to accident insurance is that, while the premiums are low, benefits are also lower compared to disability coverage. For instance, an accident policy might pay a $5,000 benefit for third-degree burns on one-third or more of the policyholder's body; however, a disability policy would pay out 60 percent of the policyholder's monthly income.

The information presented and conclusions within are based upon our best judgment and analysis. It is not guaranteed information and does not necessarily reflect all available data. Web addresses are current at time of publication but subject to change. Smarts Publishing does not engage in the solicitation, sale or management of securities or investments, nor does it make any recommendations on securities or investments. This material may not be quoted or reproduced in any form without publisher's permission. All rights reserved. ©2020 Smarts Publishing. Tel. 877-762-7877. http://smartspublishing.com. 30% total recycled fiber. Printed in the U.S. on U.S.-manufactured paper.