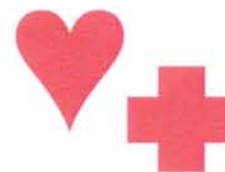


# Life & Health Insurance Advisor

## Greenberg & Associates Insurance

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Health Insurance

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## Future Retirees Will Face Higher Healthcare Costs

Here's a sobering thought: Most active workers will never be eligible for health insurance through a former employer during retirement. A report just released by the Agency for Healthcare Research and Quality (AHRQ) found that only 13 percent of private-sector establishments offered health benefits to early retirees in 2005, down from 22 percent in 1997.

Furthermore, 13 percent of private-sector establishments offered health benefits to Medicare-eligible retirees in 2005, down from 20 percent in 1997. The trend among large employers — those most likely to offer health benefits — is down as well.

The statistics prompt the question, how will retirees pay for healthcare in their golden years? Many individuals are generally unprepared for both healthcare and other expenses during retirement.

A report by the Employee Benefits Research Institute cal-

culated how much retirees will need to cover their healthcare costs.

### For men:

- Men retiring at age 65 in 2009 will need between \$68,000 and \$378,000 in savings to cover their Medicare premiums and out-of-pocket health expenses.
- If they have subsidized retiree health benefits, they will need a minimum of \$68,000 if they are comfortable with a 50 percent chance of having enough savings to cover healthcare expenses in retirement. If they want a 90 percent chance, they'll need \$134,000.
- Men with unsubsidized retiree health benefits who want a 90 percent chance of having enough savings will need \$217,000.

The long-term care financing gap is likely to increase, found a study issued by the Kaiser Family Foundation. The report stated, "According to the Center on Budget and Policy Priorities, at least 21 states and the District of Columbia have cut or are considering cuts to medical, long-term care, or other services for the elderly and disabled. These reductions combined with a diminishing pool of private resources will serve to further worsen the long-standing funding gap between long-term care need and available financing."

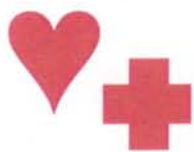
At least 30 states have Medicaid Partnership Programs, which allow individuals who have long-term care insurance to retain a certain portion of their assets and qualify for Medicaid coverage. Without the Medicaid asset disregard, individuals must generally spend down their assets before Medicaid will pay long-term care expenses.

The younger you are, the less you'll pay for long-term care insurance. At age 40, you'll pay about \$1,512 for a policy that pays \$150 per day for three years of coverage. At 50, you'll pay a bit more — \$1,741. But by age 70, the cost jumps to \$4,515. For information, please call us.



RETIREE—continued on Page 3





# Don't Lose Your Life Insurance Coverage!

When you leave or lose your job, you not only lose your salary, you lose job-related benefits. If your employer provides group health coverage, you may be eligible for continuation coverage under COBRA. But what about your valuable life insurance coverage?

**C**OBRA, the Consolidated Omnibus Budget Act, generally requires that group health plans sponsored by employers with 20 or more employees in the prior year offer employees and their families the opportunity to temporarily extend their group health coverage when a "qualifying event" would cause the

individual's coverage to end. Examples of qualifying events include divorce, "aging out" of a plan and employment termination or death of the covered employee.

However, no similar law protects your right to continue in a group life insurance plan. If you will lose your group life coverage due to job loss, retirement or other life change, what can you do?

## Reasons for coverage loss matter!

If a sickness or injury forces you to leave your job, check whether your employer's group life policy provides disability waiver of premium benefits. This provision allows totally disabled individuals to continue their group life coverage without paying premiums. The total disability must begin before your retirement and your 60th birthday.

In addition, most policies have a strict definition of disability, requiring you to be unable to perform the material duties of any occupation for which you are "reasonably qualified" due to training, education or experience. You will have to provide medical evidence of your disability in order to receive these benefits.

To see whether your employer's policy provides any disability benefits, check the summary plan description (SPD), or contact your employer's human resource department or the insurer's claims department.

If you do not qualify for disability benefits, you might be able to continue your

life insurance under a conversion policy. Most states require group life insurance policies to offer insureds the right to convert their group coverage to an individual policy when they leave the group for any reason—whether retirement, job loss, job change or other life change.

In these states, life insurers must allow insureds leaving a group to convert their group coverage into an individual policy without providing medical information. This helps individuals with medical conditions who otherwise might not be able to obtain life insurance—or who might not be able to afford it. You can usually obtain the same amount of coverage under your conversion policy as you had under your group policy. However, most insurers will offer whole life policies as conversion policies, rather than less expensive term life. Some states require insurers to offer a term policy for the first year, after which the policy will convert to a whole life policy.

The rules differ if you're losing coverage because the policy is cancelled. In this situation, the insurer will often cap the amount of conversion coverage you can buy, since another insurer may cover the group and the insurer wants to avoid overinsuring any individual.

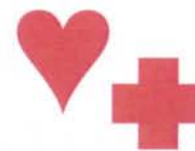
## How to apply for a conversion policy

First, find out if you have conversion rights. Check your group life insurance plan's summary plan description or certificate of coverage. If you don't have these documents, contact your company's benefits administrator or the insurance company.

If your policy doesn't contain a conver-







## RETIREE—continued from Page 1

- Men who have relatively high prescription drug expenses will need \$173,000 if comfortable with a 50 percent chance of having enough savings; to increase their odds to 90 percent, they would need \$378,000.

### For women:

- Women generally live longer, so women retiring at age 65 in 2009 will need anywhere from \$98,000 to \$450,000 in savings to cover health insurance premiums and out-of-pocket expenses.
- If they have subsidized retiree health benefits, they will need \$98,000 if comfortable with a 50 percent chance of having enough savings to cover health care expenses in retirement, and \$164,000 – \$450,000 if they prefer a 90 percent chance.
- Women with unsubsidized retiree health benefits who want a 90 percent chance of having enough savings will need a minimum of \$266,000 — more if they have high prescription drug costs.

However, many individuals retiring this

year will need more money than the average amounts listed above, because this analysis does not factor in the savings needed to cover long-term care expenses, nor does it take into account the fact that many individuals retire prior to becoming eligible for Medicare.

People currently younger than age 65 will likely need even more savings to cover their healthcare expenses in retirement. The financial condition of the Medicare system is deteriorating and likely to get worse. Ensuring retirement income security is certain to become even more challenging in the future, as employers continue to scale back retiree health benefits and policymakers begin to realistically address expected shortfalls in the Medicare program by shifting more responsibility for costs to Medicare beneficiaries. Medical cost inflation has historically outpaced the general rate of inflation, and prescription drug prices are likely to continue to increase faster than the general rate of inflation as well.

### What can you do?

Until fairly recently, most individuals had the responsibility of paying all their own healthcare expenses during retirement.

The fact that the elderly had greater financial needs but less financial protection than younger workers led to the passage of Medicare in the 1960s. When Medicare proved inadequate, private insurers began offering Medicare supplements. Today, nearly 90 percent of Medicare beneficiaries have some form of additional insurance coverage to supplement Medicare Parts A and B.

The bottom line is, unlike our parents or grandparents, most working-age adults should probably plan to rely more on private insurance coverage than on Medicare to cover their retirement healthcare expenses. If you have some years left before retirement, you have time to build savings. A health savings account (HSA) offers tax-advantaged savings — you can deduct amounts you contribute to your HSA from your income, and your funds will grow tax-free so you can use them to pay for healthcare costs in retirement. We can help you determine whether you're eligible for an HSA and whether it's the best savings vehicle for you.

For an analysis of your family's health insurance needs, please contact us. ■

## COVERAGE—continued from Page 2

sion provision, that doesn't always mean you can't convert your policy. Some policies won't spell out conversion rights, although they are guaranteed by state law. The consumer information division of your state's insurance department can tell you whether your state requires group life policies to offer conversion privileges.

Your employer's benefits administrator or insurer will likely send you a notice that your coverage is terminating after you leave employment. This notice should include information on applying for individual coverage. Don't delay — if you are eligible for conversion privileges, you have only a limited amount of time to exercise them — generally within 31 days after your group coverage ends. After that point, the insurer can require you to submit medical information in order

to qualify for coverage. And remember, you must apply for coverage; conversion is not automatic. Most insurers will require you to send the first premium payment with your completed application.

### What if the conversion policy isn't right for me?

If your employer paid all or part of your premiums, the cost of an individual policy might come as a surprise — particularly if it's for whole life. But you get what you pay for. The premiums for a whole life policy will remain the same throughout your life, unlike term coverage, which gets more expensive the older you get. Even if you develop a health condition that would make you uninsurable, the insurer cannot cancel your whole life policy as long as you continue to pay premiums. And whole life policies build cash

value, which you can withdraw for whatever reason you want. To make premiums more affordable, many insurers will let you pay on a quarterly or monthly basis.

Dealing with a life transition can be difficult enough — we can help you make sure your life insurance coverage doesn't fall through the cracks. Please call us for an evaluation of your life insurance needs and coverage options. ■

## CLAIMS—continued from Page 4

Most states require an insurer to pay interest on the death benefit from either the date of death or shortly thereafter if it delays payment but eventually determines you are entitled to the benefit. For assistance in filing a life insurance claim or locating a missing policy, please contact us. ■



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# How to File a Life Insurance Claim

If you are the beneficiary of a life insurance policy, how do you file a claim?

If you have an “insurable interest” in a family member or business partner’s life, chances are he or she has bought life insurance to protect your financial security. When the time comes, your family member or partner would want you to receive the benefits of that policy. So how do you go about filing a claim?

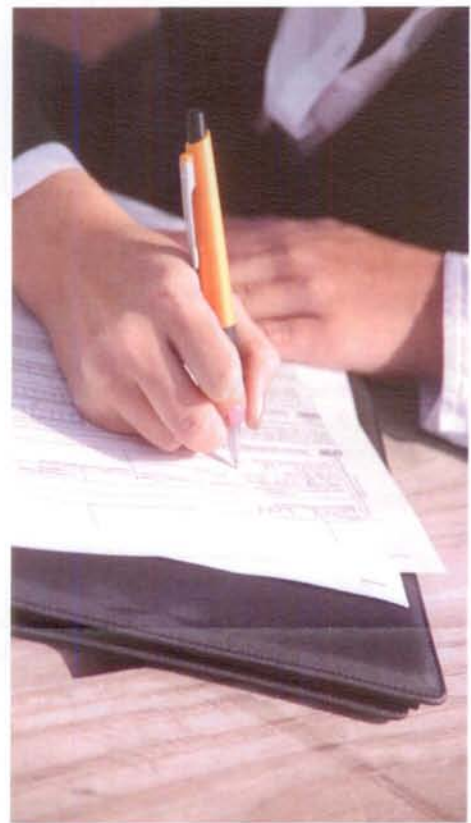
First, you’ll need to obtain a copy of the death certificate. Most insurers will require a certified copy. You can get this from the funeral director.

You’ll also need a claim form. Use the contact information on the life insurance policy to contact the insurer. If you do not have a copy of the policy, for a group life policy, contact the deceased’s employer. For an individual policy, contact the insurer or the agent who sold the policy. The agent should be able to help you fill out the paperwork.

Once you submit a claim, the insurer should take between one to four weeks to process a standard claim. In certain circumstances, however, it can take longer:

- If there is a question whether the policy was actually in force when the death occurred,
- If the death resulted from an accident and the policy has already paid accidental death benefits (“double indemnity”),
- If questionable circumstances surround the death (i.e., the beneficiary could have been involved),
- If the policy was in force for less than two years. (After that point, the policy enters the “incontestable period,” where the insurer cannot deny a claim except for “material misrepresentation” on the application. A material misrepresentation is a statement or omission that would have affected the insurer’s decision to offer coverage — for example, an insured neglecting to mention a heart attack on his/her application.)
- If the death certificate indicates the policyholder was older than he/she stated on the policy application,
- If the policyholder claimed to be a non-smoker but was actually a smoker (in some states),
- If there is a question that the deceased might not be the person named in the policy.

CLAIM—continued on Page 3



## Risk Tip

“...you shouldn’t store a life insurance policy — which contains important contact and policy information — in a safety deposit box. In most states, boxes are sealed temporarily upon one’s death, which could delay a settlement.” *Source: American Council of Life Insurers* ■

## Life Insurance Proceeds

Once you submit your claim, you must determine how you want to receive the proceeds. Most insurers offer several options:

**Lump sum:** You receive the entire death benefit at once, which can allow you to pay any final expenses. Lump-sum benefits are not subject to income tax.

**Installments:** The insurer will pay a portion of the principal and interest on a regular schedule. You can exclude part of each installment from your income. To determine the excluded part, divide the amount held by the insurance company (generally the total death benefit) by the number of installments to be paid. Include anything over this excluded part in your income as interest.

**Installments for life:** You can elect to receive life insurance proceeds in installments for the rest of your life. When you do this, you are essentially converting your life insurance benefit into an annuity. If you receive installments for life without a refund or period-certain guarantee, calculate the portion of each installment excluded from taxable income by dividing the amount held by the insurance company by your life expectancy. If there is a refund or period-certain guarantee, the amount held by the insurance company for this purpose is reduced by the actuarial value of the guarantee.

**Interest income:** You can elect to receive the interest income only on the policy proceeds, leaving the death benefit intact for a secondary beneficiary you elect. The interest you are paid is taxable; the death benefit that goes to your beneficiary will be tax-free. ■