Life & Health Insurance Advisor

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Insuring Your Health in Retirement

Your parents might have retiree health benefits through their employer. You're not likely to be that lucky. Planning ahead can save you money!

Today, fewer than one-third of large firms that offer employee health benefits also offer retiree coverage. That compares to two-thirds of large employers in 1988, according to the Employer Health Benefits 2008 Annual Survey, conducted by the Kaiser Family Foundation and the Health Research & Educational Trust.

You'll have many years left if you retire at the average age — now 63. If you can't rely on employer-provided retiree benefits, how will you cover your healthcare costs? Here are some strategies:

1. **Wait** until 65 to retire, if you are employed and your employer provides health benefits. After that time, you qualify for Medicare.
2. **Find** a job with an employer that provides health benefits. Sometimes easier said than done!
3. **Check** whether you qualify for dependent coverage under your spouse's plan, if he/she is still working.
4. **Apply** for COBRA continuation benefits, if you are currently working and have employer-provided coverage. Plan carefully, though — COBRA rights apply only to group health plans for employers with 20 or more employees in the previous calendar year and, in most cases, COBRA benefits expire after 18 months.
5. **Budget** for your retirement medical needs. These include premiums and out of pocket expenses.

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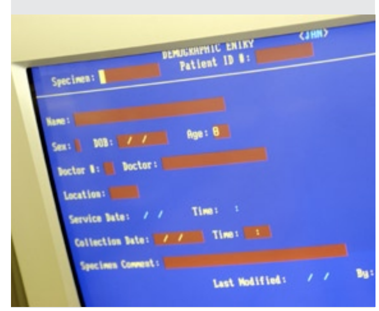
This Just In

The Mayo Clinic has launched a free online tool to help individuals organize personal health information for themselves and their families. The Mayo Clinic Health Manager is available to anyone, whether a Mayo Clinic patient or not, at https://healthmanager.mayoclinic.com/about.aspx.

The Health Manager connects to an individual's Microsoft HealthVault account. Your account allows you to store health information from a variety of sources in a security-enhanced environment and share it with others you designate.

The information you can store includes records obtained from providers and other sources, data from exercise sessions, medical appointments, immunization records, blood glucose and other health measures, lab test results, medication lists and more.



Using Life Insurance to Avoid Estate Taxes

What happens to your money if you put aside significant amounts for retirement in tax-deferred funds, but die before you can use most of it? Your account balances will go to your heirs, but taxes take a significant bite unless you're careful. Here's a strategy that can help you avoid this situation.

When you die, your designated beneficiary will receive the balances in any of your retirement plans. Taxes won't cause problems if you're married and have designated your surviving spouse as the beneficiary — he or she can transfer the money into his or her own IRA and treat the funds as his/her own. The funds do not count as taxable income and qualify for the unlimited marital deduction for estate tax purposes as well.

However, if your children inherit your tax-deferred retirement plans, they'll suffer two tax hits. First, plan balances will be included in your estate for estate tax purposes. And when your heirs take distributions from the plan, any distributions are fully taxable as income.

You've worked hard to save this money—what can you do to protect it? Life insurance can help; here are a few strategies to consider.

Before retirement

You can use life insurance as a retirement vehicle. If you're young and healthy, buying a permanent (or "whole life") policy can protect your family from your untimely demise; it can also help you build a fund to use in retirement.

A whole life policy has a cash account feature. When you buy whole life insurance, a portion of your premium goes toward this cash account.

The longer you hold your policy, the more its cash value will grow. Upon maturity of the contract (usually at age 96 or 100), the cash value equals the death benefit. Once your policy's cash value reaches a certain minimum amount, you can access these funds tax-free, up to the amount you have paid in premiums. You can access the rest in the form of policy loans. If you die, any outstanding loan amounts will be deducted from the death benefit. If you let the policy lapse, you'll owe taxes on the difference between the loan amount and your "basis" in the policy, or the amount you have paid in.

After retirement

After you reach age 70½, IRS rules require you to begin taking required minimum distributions (RMDs) from an employer-sponsored retirement plan. (RMDs have been suspended for the 2009 tax year only, to help individuals whose balances have been hard-hit by the stock market tumble.) Since you have to withdraw this money anyway, if you're still in good health and don't need the funds for daily living expenses, consider using it to buy a life insurance policy. If you

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Survivor Life Policies

If you started estate planning years ago, you may have a survivorship life insurance policy, or a "second to die" policy. Developed in the early 1980s, these policies pay a death benefit after the second spouse dies, which your heirs can use to pay estate taxes and other final expenses while protecting the value of the estate.

If you have not already invested in second-to-die insurance, you might want to wait, as the fate of the estate tax is currently under debate. Before 2002, property over $1 million was subject to federal estate tax, with a maximum tax rate of 55 percent. The Economic Growth and Tax Relief Reconciliation Act of 2001 gradually increased the amount exempt from estate taxes starting in 2002 and repealed federal estate taxes for people dying after December 31, 2009. However, the Act is set to expire after December 31, 2010. Pre-2002 tax rates would apply to the estate of anyone dying after then unless Congress makes the estate tax permanent (as is likely). If it does so, it will also likely increase the amounts exempt from estate taxes, which would make survivor life policies beneficial for only the very wealthy.

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Premiums: Whether you opt for the Original Medicare program or a Medicare Advantage program through a private insurer, you'll need to pay premiums. Original Medicare has two parts: hospital insurance (Part A) and medical insurance (Part B). Most people do not pay a monthly Part A premium because they or a spouse has 40 or more quarters of Medicare-covered employment. However, if you have less than 39 calendar quarters of Medicare-covered employment, you will pay between $244 and $443 per month.

For Medicare Part B, most people will pay $96.40 per month in 2009; however, your monthly premium will be higher if your annual income is more than $85,000 on an individual tax return, or is more than $170,000 if you are married, filing jointly.

Medicare Advantage plans include both Part A and B coverages; premiums are often comparable to Original Medicare. Some plans include prescription drug coverage as well. Plans available vary by geographic area.

Drug plans: Original Medicare does not include prescription drug coverage, so if you have Original Medicare, you'll pay extra for prescription drug coverage. Even if you don't use a lot of prescription drugs now, you should still consider joining when you are first eligible for Medicare; otherwise, you will pay a higher "penalty premium" if you join later, for as long as you have Medicare prescription drug coverage. In 2009, the average monthly premium for standalone Medicare prescription coverage is $37.

Out-of-pocket costs: Plan to spend a minimum of $2,700 in out-of-pocket medical costs per year, which includes premiums, copayments, deductibles, coinsurance and costs not covered by Medicare or Medicare Advantage. Remember — this does not include dental, vision or hearing care expenses.

6 Build savings to pay for retirement medical expenses with an HSA (Health Savings Account). By opening an HSA now, you can accumulate funds to pay for your medical expenses in retirement. You can contribute to an HSA if you have coverage under an HSA-qualified "high deductible health plan" (HDHP) and have no other first-dollar medical coverage (such as an employer group plan or individual medical plan). However, other types of insurance, such as accidental death and disability (AD&D), dental coverage and long-term care insurance are permitted. In 2009, you can contribute up to $3,000 if you have self-only coverage and $5,950 if you have family coverage. Individuals age 55 and older can make additional "catch-up" contributions of up to $1,000 annually.

An HSA provides triple tax savings: (1) you can take a tax deduction when you contribute to your account; (2) you can withdraw funds tax-free for use towards qualified medical expenses; and, (3) your investment grows tax-free. You can no longer make contributions after enrolling in Medicare; however, you can continue to use money in your account to pay for qualified medical expenses, including Medicare premiums.

7 Plan for long-term care needs. Health insurance plans (including Medicare) do not cover long-term care expenses. If you require long-term care due to illness or incapacity, you will need to either "spend down" your family's assets to qualify for Medicaid or pay out of pocket. Investing in a long-term care policy while you're younger can really pay off, especially when you consider the average cost of a year in an assisted living facility averaged $36,096 in 2008 and is likely to increase at least 5 percent per year for the foreseeable future, according to *Consumer Reports.*

For information on filling your health and long-term care insurance needs, please contact us. ■

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haven't priced life insurance lately, prices have dropped due to improved mortality. Generally, any proceeds your beneficiaries receive under a life insurance contract will not be included in their gross income and do not have to be reported.

This article is intended as information only and not advice. As every family's situation differs, please consult with a financial planning expert before taking any action. We can discuss retirement planning strategies with you and create a plan that meets your family's special needs. Please contact us for more information. ■

DRUG COSTS—*continued from Page 4*

medications. To prevent this problem, some health plans have formularies, or lists of drugs approved for specific conditions. When your physician selects a drug from a formulary, not only are you using a drug with a proven track record, you may save money. Many health plans encourage insureds to use formulary drugs by lowering copayments for them.

4 Many mail-order pharmacies offer substantial discounts on drugs, particularly when you buy a supply for several months. Many health plans encourage the use of mail-order pharmacies by lowering copayments for mail-order drugs; if you have no prescription coverage, you will pocket any savings.

Of course, if you need medication for an acute condition, you can't wait for it to arrive in the mail. But if you have a chronic condition that requires prescription drugs, you can use the Internet to compare pricing at several mail-order pharmacies.

Many health plans available to individuals include prescription drug benefits. For a review of your plan or information on prescription drug benefits, please call us. ■

Managing Prescription Drug Costs

According to the Kaiser Family Foundation, between 1990 and 2005, annual spending on prescription drugs in the U.S. grew nearly five times, from $40.3 billion to $200.7 billion. Here are some suggestions to control prescription drug cost increases.

Three factors contribute to prescription drug cost inflation. First, we're consuming more prescription drugs. Between 1993 and 2003, the number of prescriptions per person increased from an average of 7.8 per year to 11.8 per year. Second, retail prescription drug costs have experienced greater cost inflation than the general economy — 7.4 percent per year, versus an average of 2.5 percent. This stems from price increases for existing drugs and increased use of new, higher-priced drugs. Third, more people are using new, brand-name drugs. These cost more than older drugs due to research and development costs, advertising expenses and lack of competition from generics.

Regardless of what type of medical coverage you have, prescription drugs are affecting your healthcare costs. Here are some things you can do to lower those costs:

1 **Ask if an over-the-counter remedy will work.** Over-the-counter remedies exist for many common, non-life threatening conditions, such as pain, heartburn, yeast infections and the like. In fact, many medications formerly available only by prescription are now available over the counter, such as Prilosec, a heartburn medication. Even so, you can still buy prescription drugs for many of these conditions — at much higher prices.

2 **Ask for generics.** When your doctor gives you a prescription for a brand-name drug, ask if there is a generic equivalent. Generics usually cost far less than their brand-name counterparts and are therapeutically equivalent. There may be reasons for your physician to prescribe a brand-name drug, however. Many newer drugs are protected by patents that prohibit other manufacturers from creating generic equivalents, or there may be a medical reason why your doctor prefers the brand-name drug. If so, ask why.

3 **Ask for a formulary drug.** Newer and more expensive drugs are supplanting older, cheaper drugs as a first line of care. These drugs account for around 28 percent of the increase in the cost of prescription drug benefits. And often, the newer drugs are no more effective than older, proven

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Preventing Any Type of Flu

As this newsletter went to press, the U.S. Centers for Disease Control (CDC) had confirmed more than 3000 cases of swine flu in the U.S. Although fears of pandemic might be overblown, individuals with chronic health conditions, such as cardiac or respiratory illnesses, should take precautions to avoid swine flu, as well as the typical "seasonal flu." Here are the CDC's recommendations for preventing any type of flu:

Avoid close contact. **Avoid close contact with people who are sick. When you are sick, keep your distance from others to protect them from getting sick too.**

Stay home when you are sick. **If possible, stay home from work, school and errands to prevent others from catching your illness.**

Cover your mouth and nose. **Cover your mouth and nose with a tissue or the crook of your elbow (not your hands) when coughing or sneezing to prevent the spread of germs.**

Clean your hands. **Washing your hands often will help protect you from germs.**

Avoid touching your eyes, nose or mouth. **Germs spread when a person touches something contaminated and then touches his or her eyes, nose, or mouth.**

Practice other good health habits. **Get plenty of sleep, be physically active, manage your stress, drink plenty of fluids, and eat nutritious food.**

Most insurance plans include coverage for vaccinations and other preventive care. Many high-deductible health plans also include coverage for preventive care outside the deductible. Are you taking advantage of the preventive care measures covered by your plan? Contact us for a review of your plan.