360 Degrees of Financial Literacy

PROTECTING YOUR FAMILY WITH INSURANCE

LIFE INSURANCE

If there is an individual who depends on you for financial support, your financial plan should provide a source of income for your spouse and dependents in the event of your untimely death. Life insurance fills this need and can also serve estate planning purposes, such as paying estate taxes.

CHOOSING COVERAGE

There are a number of factors to consider when determining the amount of life insurance coverage you need, including how much you can afford in premiums, how much coverage your family will need, the period of time for which they will need coverage, and whether you want pure protection or are looking for an investment as well.

THE GREAT DEBATE—TERM VS. PERMANENT

Term insurance provides the largest death benefit for your premium dollar. Term policies provide pure income protection at a low cost. As the name implies, you can buy it one year at a time or for a specific period of time. If you die within the term selected, a benefit is paid to your beneficiary. If you outlive the term, no death benefit it paid. The cost of term insurance rises as you age.

There are two basic types of term policies, annual renewable policies and level premium policies. The former increases each year and the latter allows you to lock in a premium for a fixed number of years.

Some top-rated insurers also offer return-of-premium term policies. These pay a death benefit in the event you die during the term of the policy, but if you survive the policy, you get a refund of all the premiums you paid over the life of the policy. They cost a bit more, but you get the dual benefit of risk protection and recouping your "investment" should you not need the death benefit.

Permanent life insurance combines a death benefit with an investment. Permanent policies—such as whole life, universal or variable life—allow for part of your premium to be invested, thus building cash value. For this reason, the premiums can be several times higher than for the same amount of term insurance.

Any earnings accrued through a permanent life policy are tax-deferred until you cash in the policy or are tax-exempt if paid to your beneficiaries upon your death. However, earnings could be significantly less with an insurance policy than in some other investment vehicles, even certificates of deposit (CDs).

Characteristics of each type of permanent life insurance include:

1. WHOLE LIFE INSURANCE

• The most common type of life insurance. Both the death benefit and premium (which is based on your age and other factors) remain the same, year after year.
• You can borrow against the policy at a low interest rate, and if the loan is not repaid, the outstanding balance is deducted from the benefit paid at your death.
• You can withdraw some of your cash value and still remain insured, or you can surrender the policy and retrieve its full cash value.
• Best used as part of a long-term plan, since commissions and higher initial premiums slow the cash value accumulation in the early years of the policy.

2. UNIVERSAL LIFE INSURANCE

• Offers more flexibility than a whole life policy, allowing you to vary the amount of the premium and the death benefit. For example, with the same premium dollars, you can choose a lower death benefit and a larger cash buildup, or a smaller cash buildup and a higher death benefit.
• For this flexibility, you'll pay higher fees and administrative costs.

3. VARIABLE LIFE INSURANCE

• Allows the policyholder to control the investment of the cash value portion of the policy, choosing from investment options with varying degrees of risks and rewards offered by the insurance company.
• Earnings generated by the policy are not taxed while the policy is in force.

• These policies come with a certain level of risk, since the value of the death benefit and the cash buildup fluctuates depending on the performance of the investments you choose.

HEALTH INSURANCE

Health insurance has become increasingly complex and expensive, but plays an important role in protecting your family's physical, and financial, well-being. Without adequate health insurance coverage, a major illness or accident could wipe out your savings and put you into debt.

While some employers provide group health insurance programs for their employees—usually some type of managed care program—others do not. And while these plans usually cover your immediate family—spouse and children—they do not cover extended family. Most employers plans include a cost-sharing

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arrangement where employees are required to pay for part of their monthly premiums, while the employer pays the rest.

If your employer does not offer group health insurance, or if you are self-employed, individual health insurance policies are available, but be sure to shop around to find one that meets your needs in terms of coverage and cost. Self-employed does not condemn you to individual coverage in California if you have a full-time employee. However, most insurers will not accept a person working with no employees as a "group."

Whether you're looking for health insurance for yourself, your family or aging parents, be sure to shop around to find one that meets your needs in terms of coverage and cost.

TYPES OF MANAGED CARE PLANS

HMOs (Health Maintenance Organizations)—Historically, HMOs have been the least expensive and least flexible policies available. In return for lower premiums and copayments, you must see only approved doctors and will need to get permission from your primary care physician before seeing a specialist. Usually cover preventive care. However, with record increases in medical premiums, it's always smart to comparison shop as HMOs sometimes may not be your least expensive option.

PPOs (Preferred Provider Organizations) offer an incentive to stay within its network of doctors by requiring smaller co-payments for these doctors. However, PPOs will allow you to see any doctor outside of their network, and usually allow you to see specialists without prior approval, but you'll have to pay a higher percentage of your co-insurance. Usually, some preventive care is covered.

POS (Point-of-Service) Plans are similar to a PPO, with the major difference being that a POS usually requires you to use a primary care doctor to get referrals to specialists, if you want the plan to pay for them. Preventive care services usually are covered.

ADDITIONAL OPTIONS

Flexible-Spending Accounts (FSAs) allow employers and employees to use pretax dollars to pay for certain personal expenses that aren't covered by insurance, such as out-of-pocket health care costs (i.e., deductibles and co-payments) and dependent care (i.e., day care, senior in-home care).

COBRA—Usually, if you lose your job, you also lose your health insurance. COBRA, or the Consolidated Omnibus Budget Reconciliation Act of 1985 requires most employers to give you the opportunity to continue your health insurance for up to 18 months, at your expense.

Medicare—If you qualify for Social Security you are automatically covered by Medicare Part A, for in-patient type benefits, such as hospital care, skilled nursing, home health care and hospice care. You also can voluntarily apply for low-cost Medicare Part B, which covers doctor visits, outpatient hospital care, physical therapy and medical equipment, and ambulance expenses.

Medicaid—A joint federal–state program that provides medical assistance to various low-income individuals, including those aged 65 or older, disabled or blind. You must meet your state's medical and functional criteria, and there are income restrictions.

LONG-TERM DISABILITY INSURANCE

One can never anticipate when tragedy will strike. Whether in a car or household accident or a debilitating illness. And statistically speaking, most people of working age have a greater chance of being disabled than dying. Yet more people have life insurance than disability insurance.

Long-term disability insurance replaces a portion of the salary you were earning before you became disabled. Single and self-employed individuals should seriously consider disability policies if they have no other income source—or if you are the main breadwinner for your family.

Here's what you need to know to get sufficient coverage at an affordable price:

Benefit Amount: Disability insurance typically pays 60–80 percent of your income should you become disabled.

Term of Benefits: You can choose disability coverage that pays for one year, two years, five years or all the way until age 65—or even for life. Keep in mind that premiums increase as the term increases.

Elimination Period: Policies usually have waiting periods ranging from 60 days to two years before benefits can start. The average is 90 days.

Noncancelable: While they cost more, these policies prohibit the insurance company from canceling your policy (unless they stop covering everyone in your occupation) or raising your premium.

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Guaranteed Renewables: Cannot be cancelled, but the company can raise the premium by increasing rates for an entire class of policyholders.

Own Occupation or Any Occupation: Own occupation coverage pays benefits if you can no longer work in your specific occupation—this is popular with doctors, attorneys, etc. Any occupation pays you if you are unable to work in any occupation for which you are reasonably suited/trained.

While purchasing a private disability insurance policy is your best bet, there are some government-sponsored disability benefits available:

Workers' Compensation—Disability benefits are paid to covered workers whose illness or injuries are work-related. The amount and disbursement of benefits varies from state to state.
Social Security Disability—The Social Security Administration (SSA) offers two programs. Social Security disability insurance pays limited benefits to qualified individuals under 65 regardless of income. Supplemental Security Income (SSI) pays benefits to qualified individuals with limited income over 65, or who are blind or disabled. Neither covers partial disability.

Veterans Benefits—Members of our armed forces and veterans are entitled to disability compensation for health problems associated with their military service.

Federal Employees Retirement System—Federal employees covered under the Federal Employees Retirement System (FERS) and with at least 18 months of service credits are eligible for disability benefits.