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Financial Briefs

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A Guide to the Changing Health Insurance Landscape

Since the 2,700-page Affordable Care Act was signed into law three years ago, it has remained controversial. Whatever you may think about "ObamaCare," however, it is a fact of the health insurance landscape and is continuing to move toward complete implementation. So it's important to understand how the law could affect the health insurance coverage you have, the health care you receive, and the tax bill you pay on April 15.

In this article, we'll help you begin to understand the law, what major changes have already gone into effect, the changes going into effect this year, and the major changes that lie ahead.

In Effect before 2013

Some of the most significant changes brought on by the Affordable Care Act have already taken effect since President Obama signed it into law on March 23, 2010. These include:

- Health insurance companies are required to offer coverage to people with preexisting conditions, with a limit on out-of-pocket expenses (excluding premiums) of $5,950 per year for individuals and $11,900 for families.
- Health insurance companies are banned from setting lifetime dollar benefit limits on essential medical expenses, like hospital stays.
- Health insurers cannot drop coverage for people when they become sick.
- Children under the age of 26 must be allowed coverage under their parents' policies, a change which has extended health insurance coverage to an estimated 2.5 million young people.
- All new policies must include coverage for preventive care and medical screenings without patients being subject to a

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Factors to Consider When Reviewing Your Life Insurance Policy

No matter how well you set up your life insurance policy when you first took it out, the policy may no longer fit your needs. After all, life is marked by changes, and it's not unusual for those changes to render your life insurance policy unsuitable in one or more ways.

Here is a list of some of the most important aspects of your policy that you need to evaluate every few years:

Amount of coverage. You may need to increase your coverage if your income is higher than when you opened the policy, you've had more children, or your spouse's earnings have decreased. You may also need to increase your coverage if you're using permanent insurance for estate planning purposes and your potential estate has grown in value, whenever estate tax rates rise or the excluded amount is decreased by changes in the estate tax code.

Type of policy. It's not uncommon for young family breadwinners to take out a term policy, since premiums are considerably less expensive for the same amount of coverage as they are for permanent, cash-value policies. But permanent policies provide different kinds of benefits, including savings that can increase the policy's value and provide a source for loans. Converting from a term to a cash-value life policy can make good financial planning sense as your income and assets grow.

Policy ownership. Most life policies are owned by the person they insure. There are a number of advantages to this, including the right to name and change beneficiaries, increase or decrease coverage, and cancel or convert it to a

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A Guide

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deductible or copayment.

- The Medicare Part D "donut hole" gap for prescription drug coverage is narrowed by 50%, and those people affected receive a $250 rebate. (The gap refers to a point where ordinary Medicare subsidies reach their limit, but catastrophic coverage provisions don't kick in, which means retirees pay a higher price for prescriptions.)
- Health insurance companies are required to pay out 80% to 85% of the premiums they collect in benefits or issue rebates to policyholders. (In 2012, health insurers paid out $1 billion in rebates to 13 million Americans, or about $151 per family.)
- Eligibility for Medicaid — the federal health insurance program for the poor — was raised to 133% of the federal government's poverty income level.

Changes in 2013

By comparison with the changes already in effect, those that take effect this year are less significant, with the exception of higher taxes for high-income taxpayers. As of January 1 of this year, the following provisions went into effect:

- A 0.9% Medicare income surtax for single filers who make more than $200,000 a year and couples filing jointly with taxable income above $250,000.
- An additional Medicare tax of 3.8% on unearned (investment and passive) income for the same filers as the Medicare income surtax above.
- An increase from $1.25 million to $2 million on the annual limits insurers will pay per year for treatment of chronic illnesses or major life-saving procedures, such as organ transplants.
- A reduction from $5,000 to $2,500 on the maximum amount individuals can contribute to a flexible medical savings account.
- A requirement for health insurers to provide a new form called a Summary of Benefits and Coverage. This is supposed to be a simple, easy-to-read description in chart format that explains how the plan works, what it covers and doesn't cover, and compares plan choices with no "fine print."
- By October 1, state health exchanges will be available to qualifying individuals to meet the Act's mandate. In states where no state-sponsored health exchange exists, the federal government will make an exchange available.

New in 2014 and Beyond: The Mandate

The biggest changes associated with the Affordable Care Act — the individual mandate (the requirement that all Americans secure health insurance coverage) and the requirement that most businesses offer health insurance to their employees or face a penalty — go into effect in 2014.

For individuals, these changes mean:

- Individuals and families with income of up to 133% of the federal definition of poverty (around $14,000 for an individual and $30,000 for a family of four) will qualify for Medicaid, which provides free or low-cost medical care.
- People with incomes equal to between 133% and 400% of the poverty level (around $43,000 for an individual and $92,000 for a family of four) will be eligible for tax credits for private health insurance policies they purchase through the health exchanges.
- For those with income more than 400% of the poverty level, there will be no tax subsidies for purchasing health insurance. At these levels, individuals can take advantage of $2,500 medical savings accounts and deduct medical expenses that exceed 10% of their income.
- Fines for individuals and families who fail to obtain health insurance coverage are the greater of $95 per adult or 1% of income in 2014, and rise to $325 per adult or 2% of income in 2015, and $695 per adult or 2.5% of income in 2016. Starting in 2017, annual increases in the fines will be indexed for inflation.

For businesses, these changes mean:

- Businesses with at least 50 full-time employees will be required to offer health insurance coverage to their employees. Required employee contributions can't exceed 9.5% of their income and plan deductibles can't exceed $2,000 for individuals or $4,000 for families. The penalty for failing to offer coverage will be $2,000 per employee.
- Businesses with fewer than 50 employees are not required to provide health insurance, but businesses with fewer than 25 employees who earn no more than an average of $50,000 will be eligible under the act for a tax credit equal to 50% of what they pay toward employee premiums (provided that these employers pay at least half of each employee's premium).

One of the aims of the Affordable Care Act is to reduce the amount Americans and the federal government spend on health care. According to the Organization of Economic Co-Operation and Development, Americans spent more than $8,200 per person on health care in 2010. That was more than two and half times the average for the world's 30 most highly developed countries and 60% more than the next biggest-spending country, Norway.

Fortunately, our health care costs have been rising at a lower rate over the past four years than they have over the last 52 years. Economists acknowledge that is at least in part due to the recession and sluggish recovery; but, according to a recent article in *Forbes*, Douglas Elmendorf, director of the nonpartisan Congressional Budget Office, attributes much of the reduction to the Affordable Care Act changing the way health care is being delivered.

Factors to Consider

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different kind of policy. But when it comes to exposure to estate taxes, this ownership structure can be a disadvantage, because when benefits are paid out, they are considered part of the owner's estate. If your estate is close to the exclusion limit ($5.25 million in 2013, with annual increases indexed for inflation), that could increase the federal taxes the estate is obligated to pay.

Instead of owning your policy, it may make sense for it to be owned by your spouse, your heirs, or a life insurance trust. This keeps the proceeds out of your estate and lowers its exposure to estate taxes. On the other hand, it usually means you give up the rights to make all decisions regarding the policy, unless you are a trustee of the life insurance trust.

If you own the policy that insures your life, here's a cautionary note: if you die within three years of changing ownership, benefits will still be included in your estate. It's best to make the change sooner rather than later, and while you're still in good health.

Beneficiaries. People die, get divorced, their families grow larger. Your attitudes toward the people you once named as beneficiaries may change, and their needs for support may change as well. For all of these reasons, reviewing your designated beneficiaries — both primary and contingent — is important. In fact, it's best if you contact your insurance company or agent to change your beneficiaries as soon as circumstances change.

Improvements in your health. If your health has improved, you've stopped smoking, become more fit or lost considerable weight, you may be qualified for lower premiums, either from your current insurer or another carrier. If these conditions apply to you, it may make sense to contact your insurer or insurance agent and shop around for a new policy.

The financial health of your insurer. Not all insurers are equally financially healthy. The vicissitudes of the investment markets and underwriting standards can also make a once-strong company relatively weak. Instead of taking an insurance company's word for it, check for yourself.

A number of independent organizations — including A.M. Best, Fitch, Moody's Investor Services, Standard & Poor's, and Weiss Ratings, Inc. — rate the financial strength of insurance companies. Learn the differences in their rating codes. Finally, search for ratings by underwriting company, not the overall brand name. The underwriting company is named in your policy. If you're considering taking out your first policy with an insurer, visit their website for a complete list of their underwriting companies.

Fashioning a life insurance policy that meets your needs can be a complicated process that may be more effectively accomplished with the help of a professional. Please call if you'd like to discuss this in more detail.

11 Ways to Reduce Life Insurance Premiums

Here are 11 ways you can reduce your premiums while making certain you're properly insured.

1. Don't buy more than you need. More often than not, Americans underinsure their lives. Still, there are many people who buy more life insurance than they really need.

2. Consider term insurance. Permanent cash-value life insurance policies can have a legitimate role, especially when developing strategies to minimize estate taxes. However, you may save significant sums over your lifetime by purchasing term insurance.

3. Shop around. Rates for the same amount of insurance can vary quite a bit from one insurer to another. It pays to consider quotes from a number of different insurers before deciding on one to write your policy.

4. Lose weight. Dropping pounds can be one of the most effective ways to reduce your premiums. Lose enough, and you might be able to renegotiate your rates with your existing insurance company.

5. Adopt a healthier life style. You can also gain leverage for lower premiums if you stop smoking and reduce how much alcohol you drink.

6. Drive safely. Some insurance companies will also discount your premiums if you maintain a clean driving record.

7. Keep out of danger. Most insurance companies charge more if you work in a dangerous occupation. The same goes for dangerous hobbies, like skydiving, hang gliding, or racing cars, airplanes, or boats. If lower insurance rates are important, it may make sense to give up those hobbies or change your job.

8. Use one policy for two or more people. Instead of taking out separate policies for your spouse and children, consider adding them to your policy as a rider. The rates may be cheaper, and you may also save on administrative costs.

9. Inquire about family discounts. If you have special reasons for taking out separate policies for members of your immediate family, ask whether your insurer offers a discount.

10. Carefully consider riders. Riders are supplements to a life insurance policy that offer additional benefits. Most of them come at additional cost, however, so consider limiting them if keeping your premium low is important.

11. Pay your premium annually. It's tempting to smooth out your bill payments by opting to pay your life insurance premiums monthly, but insurers charge less if you pay the full annual premium once a year.

Please call if you'd like to discuss this in more detail.

Business Data

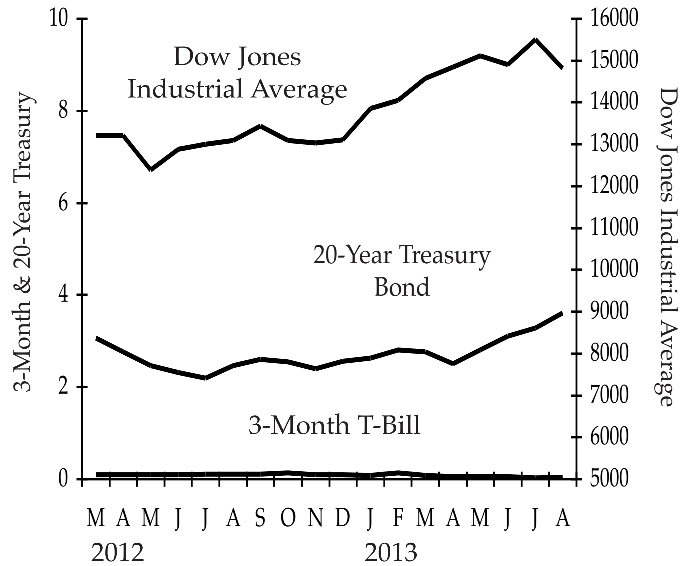
Indicator	Month-end Jun-13	Jul-13	Aug-13	Dec-12	Aug-12
Prime rate	3.25	3.25	3.25	3.25	3.25
3-month T-bill yield	0.06	0.03	0.04	0.09	0.11
10-year T-note yield	2.33	2.54	2.86	1.80	1.74
20-year T-bond yield	3.11	3.28	3.61	2.56	2.47
Dow Jones Corp.	3.18	3.05	3.17	2.70	3.04
GDP (adj. annual rate)#	+0.40	+1.10	+2.50	+0.40	+1.30

Indicator	Month-end Jun-13	Jul-13	Aug-13	% Change YTD	12 Mon.
Dow Jones Industrials	14909.60	15499.54	14810.31	13.0%	13.1%
Standard & Poor's 500	1606.28	1685.73	1632.97	14.5%	16.1%
Nasdaq Composite	3403.25	3626.37	3589.87	18.9%	17.0%
Gold	1192.00	1314.50	1394.75	-16.1%	-15.4%
Unemployment rate@	7.60	7.60	7.40	-5.1%	-10.8%
Consumer price index@	232.90	233.50	233.60	1.5%	2.0%
Index of leading ind.@	95.30	95.40	96.00	2.8%	0.2%

— 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

March 2012 to August 2013



News and Announcements

Review Your Personal Liability Coverage

A personal liability umbrella policy increases the liability coverage of your homeowners and automobile policies. It also expands coverage to include damages caused by nonowned property in your possession and suits for libel, slander, defamation of character, or invasion of privacy. The policy also pays attorney fees to defend you against claims covered by your policy. Thus, even if you carry high limits on your homeowners and automobile policies, you should consider an umbrella policy.

Your homeowners and automobile policies will typically cover you for personal liability of anywhere from $100,000 to $500,000. However, if a judgment in excess of that amount is awarded against you, the amount in excess of your insurance limits will have to be paid personally, unless you carry personal liability insurance.

You may not think you need an umbrella policy because your actions would never necessitate the need for this coverage. However, liability can arise from auto-related accidents or accidents on your property. Liability awards are typically based on the severity of the plaintiff's injuries, not on whether you intended to harm the person.

Umbrella policies can be purchased in increments of $1 million. They are designed to kick in once the limits of your homeowners and automobile policies are exceeded, so you'll be required to maintain certain limits on those policies. Umbrella policies don't cover intentional acts or damages resulting from a business, even a home-based business. Separate coverage is required for business risks.

This coverage is relatively inexpensive, since claims are usually rare. Please call if you'd like to discuss how much personal liability insurance you should consider.

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