Dalton Education
BY CERIFI

The Dalton Review®
Insurance Planning

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Introduction to Insurance

- Insurance
  - Protects against "Pure Risks"
    - Planners need to address risk exposures in the client plan
    - Identify and transfer risk where possible
      - Home, liability, Auto, Life, Disability, health, business, pet ownership

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Risk Management Guidelines

	High Frequency	**Low Frequency**
High Severity	Avoidance	Insurance
Low Severity	Retention/Reduction	Retention

Avoidance – Most serious type of risk

Insurance – Financial loss could be severe, but doesn't happen often

Retention/Reduction – Minimal financial loss, too expensive to insure

Retention – Minor injuries, illnesses, car door dings

Exam Tip: Know Chart!

Exam Tip

- Look For:
  - Contextual variables within each question may change the order of importance
  - How to provide adequate protection while keeping premiums at a reasonable rate
  - One key point to keep in mind is the amount of emergency funds the client has available to self-insure, including covering deductibles

Practice Question 1

Joe's daughter is 16 years old and he recently bought her a 1970 VW Bug for $1,000. Which of the following risk management strategies should Joe use to manage the risk of property loss due to a collision?

A. Risk Avoidance
B. Risk Reduction
C. Risk Transfer
D. Risk Retention

Reminder: Terminology from the Text to be Familiar with

- Law of Large Numbers
- Perils
- Hazard
- Adverse Selection
- Requisites for an insurable risk
- Elements of a valid contract
- The Principle of Indemnity
  - Subrogation Clause

Examples of Terminology Use

- The homeowner is sitting on the porch eating. They walk away, leaving a banana peel on the step. Amazon stops by to deliver a package, and the driver slips on the banana, falls and breaks an arm. What type of hazard did the homeowner cause?

- Sully is in a car accident. His insurance company pays for the damage to the car. After the police report is filed, the insurance company puts a claim in against the third party who hit the insured's car. What right did the insurance company exercise?

Legal Principles of All Insurance Contracts

- The Principle of Insurable Interest
  - Must have an emotional or financial hardship resulting from damage, loss or destruction
  - **Property and Liability** – must exist at time of policy inception and at time of loss
  - **Life Insurance** – only need insurable interest at time of policy inception
    - Insurable interest if Blood, Marriage, or Business

Practice Question 2

Jeff is age 35, married with a son and daughter ages 3 and 5. Jeff earns $500,000 as a partner at a CPA firm. Jeff can purchase life insurance on all of the following except?

A. Wife
B. Son
C. Business Partner
D. His Neighbor

Reminder: Terms to be Familiar with: Law of Agency

- Agent
  - Legal representative of the insurer
  - Enters into agreements on behalf of the insurer
- General Agent
  - Represents one insurer
- Independent Agent
  - Represents multiple, unrelated insurers
- Broker
  - Represents the policy owner, not the insurance company

Important Features of Insurance Contracts (1 of 4)

- Exclusions
  - Outlines specifically what will not be covered
    - Helps keep premiums down
- Riders and Endorsements
  - Written additions to an insurance contract

Ensure it states if a rider was elected, and what is attributable to that rider (dollars and benefits)

Important Features of Insurance Contracts (2 of 4)

- Valuation of Insured Losses
  - Replacement Cost
    - Current cost of replacing property with new materials of like kind
  - Actual Cash Value
    - Essentially replacement cost, less depreciation
  - Agreed Upon Value
    - Typically used for art, antiques

Actual Cash Value Example

Kevin buys a plasma television for $10,000. Three years later it's stolen and it's 50% depreciated. The same plasma television is now selling for $6,000, how much does Kevin receive?

Replacement Cost	$6,000
Less: Depreciation	<3,000>
Cash to Insured	$3,000

Important Features of Insurance Contracts (3 of 4)

- Deductibles
  - Help eliminate small claims and reduce premiums
- Coinsurance
  - In addition to deductibles, common with health insurance
  - Insured pays a portion of the losses incurred
    - Typically a health insurance policy will contain a $500 deductible and an 80/20 copayment clause. Insured is responsible for 20% of expenses above deductible

Important Features of Insurance Contracts (4 of 4)

- Coinsurance
  - Requires insured to cover at least a stated percentage of property value
  - If coverage meets or exceeds coinsurance requirement (usually 80%),
  - **If coverage is less than coinsurance requirement, then insurer pays the greater of ACV or the following formula:**

$$\frac{\text{Amount of Coverage Purchased}}{\text{Coinsurance}} \quad \text{X} \quad \text{Loss – Deductible}$$

Coinsurance Example

Todd owns an apartment building with a replacement value of $300,000 and is 50% depreciated. He purchased $200,000 of homeowners insurance with a coinsurance requirement of 80% and a $500 deductible. Todd experiences a $100,000 loss, what will the insurance company pay?

Greater of:

ACV: $100,000 x .5 =$50,000

or

Formula:

$$\left(\frac{\$200{,}000}{\$300{,}000 \text{ x } .80} \right) \text{ x } \$100{,}000 - \$500$$

= $82,833

Rating Agencies

- Used to help planner evaluate insurance companies
  - A.M. Best's
    - Highest: A++ to A/A-
    - Lowest: C/C- to D
  - Moody's
    - Highest: Aaa to Aa1/Aa2
    - Lowest: B1/B2/B3 to Caa

Regulating the Insurance Industry

- Regulation is done at the state level, not federal*
  - Legislative Branch
    - Provides for licensing of agents
    - Enacts laws and requirements for doing business in a particular state
  - Judicial Branch
    - Rules on constitutionality of laws passed by legislative branch
    - Renders decisions and interpretations regarding policy terms
  - Executive or State Insurance Commissioner
    - Administers, interprets and enforces insurance laws
    - Is a member of NAIC

Exam Tip: IMPORTANT!

**IRS, SEC and ERISA have oversight (when applicable)*

NAIC Criteria

- National Association of Insurance Commissioners (NAIC)
- Provides a watch list of insurance companies based upon financial ratio analysis
- No regulatory power over insurance industry
- Issues model legislation

Exam Tip: NAIC does not directly regulate the insurance industry.

Approaches to Providing Adequate Protection

- The Capital Needs Approach
  - Income needs, education & retirement funding
- The Human Life Value Approach
  - Amount of income earned, less amount consumed by insured
- Capital Retention
  - Not invade the capital, but use as income generator
- Income retention
  - Maintain income level
- Income multiplier
  - Multiple of income

Exam tip: May need to calculate need

Individual Life Insurance Policies
Term Life Insurance

- The protection ceases at the end of the term unless renewed.
- No cash value, savings component, or investment component.
- May be converted to a permanent policy without proving insurability
- Maximum death benefit per premium dollar spent
- Suitable for temporary needs or young families starting out.

Individual Life Insurance Policies
Whole Life Insurance or Permanent Life Insurance

- Whole life policies provide lifetime protection
- Whole life policies have a savings or investment component (Cash Value)
- Suitable for lifetime needs such as income, retirement funding, estate tax
- Participating or non-participating

Dividend Options

- **C**ash
- **R**educe future premiums
- **A**ccumulate at interest
- **P**aid-up permanent additions (purchase of)
- **O**ne-year term insurance additions (purchase of)

Exam tip: CRAPO will help you remember options.

Individual Life Insurance Policies

Whole Life Payment Structures

- Ordinary Life: Pay premiums until age 100/120 or death
- Limited Pay Life: Premiums are higher than ordinary life,
- Variable Life: Cash value is invested in stock, bond and money market subaccounts
  - Death benefit and cash value fluctuate based on investment performance.

Individual Life Insurance Policies
Multiple Insureds

- First-to-Die
  - Provides death benefits when the first insured dies--first-to-die life expectancy is less than either single life expectancy.
- Second-or-last-to-Die (aka Survivorship life)
  - Provides death benefits when second-or-last insured dies
  - Can be used when one spouse has poor health.

Individual Life Insurance Policies
Universal Life Insurance

- Insured may adjust
  - Premiums
  - Face Value
  - Cash Value
- Insured does not direct the investment portion
- Cash value can be used to pay the premiums

Individual Life Insurance Policies
Universal Life Insurance Example

Bill pays his premium of $1,500 which is added to the cash value of his policy of $10,000. His new cash value is $11,500. The insurance company then reduces his cash value to reflect the portion of his premium to cover mortality costs, administrative expenses and insurer profit. This portion of the premium is $1,000, so the ending cash value is $10,500.

If Bill wanted, he could just use the original cash value of $10,000 to pay his premium.

Individual Life Insurance Policies
Universal Life Policy Type

- Universal Life-A
    - A flexible premium, adjustable death benefit unbundled life insurance contract.
- Universal Life-B
    - Same as universal A except that death benefits vary directly with the cash values.
  - For example: Tiffany purchases a universal life insurance policy with a face amount of $1,000,000 and with a cash value of $100,000. The death benefit would be $1,100,000.

Individual Life Insurance Policies
Variable Universal Life

- A product with investment options and no minimum guaranteed rate of return or interest.
- Cash value is invested in a separate account, not the insurer's general account.
  - The cash value is not guaranteed but in the event of an insurance company failure, the separate account will not be treated as an asset of the insurance company.

Feature Comparison of Common Life Insurance Policies (1 of 2)

	Term Life	**Whole (Ordinary) Life**	**Universal Life**	**Variable Life**	**Variable Universal Life**
Premium Amount	Fixed or Variable	Fixed	Variable, subject to required min.	Fixed	Variable, subject to required minimum
Death Benefits	Fixed	Fixed	May increase above initial face value amount, depending on cash value	Has a guaranteed minimum, but can increase if investment experience on cash value is good	Has a guaranteed minimum, but can increase if investment experience on cash value is good
Policy Owner's Control Over CV	None	None	None	Complete	Complete

Feature Comparison of Common Life Insurance Policies (2 of 2)

	Term Life	Whole (Ordinary) Life	Universal Life	Variable Life	Variable Universal Life
Rate of Return on Cash Value Investment	None	Fixed	Minimum guaranteed rate, but may be higher depending on interest rates	No minimum guarantee, but positive investment experience can yield very high returns	No minimum guarantee, but positive investment experience can yield very high returns
Use	Large need, limited resources	Want guarantees	Flexibility without investment responsibility	Flexibility with investment responsibility, fixed premiums	Flexibility with investment responsibility, variable premiums

Termination Options

- After the policy develops a nonforfeiture value, the policy may be surrendered and the surrender value may be
  - Taken in cash
  - Used as a single premium to purchase a paid-up life insurance policy
  - Used to buy extended term insurance

Settlement Options

- Lump Sum
- Interest Only
- Annuity Payments
  - Fixed Amount
  - Life Income
  - Fixed Period
  - Life Income with Period Certain
  - Joint and Last Survivor Income

Business Use of Insurance

Buy/Sell agreements funded with Life Insurance

- Cross Purchase
  - Pros:
    - Increases in surviving partners' basis
  - Cons:
    - Lots of policies = N * (N-1)
    - Cost variances

- Entity Purchase
  - Pros:
    - Company pays
    - Much fewer policies needed
  - Cons:
    - Does <u>not</u> increase surviving partners' basis

Business Use of Insurance

- Key Person Insurance
  - Designed to protect a business upon the loss of a key employee
  - Premiums are not a deductible business expense
  - Death proceeds are received tax-free

Life Annuity Contracts

- Annuity
  - Periodic payment to an individual that continues for a fixed period or the duration of a designated life or lives
  - Provides protection from outliving your assets
  - Commonly used to fund retirement
  - Not appropriate if you want to leave assets to your heirs
  - Not a hedge against inflation (unless variable)

Types of Annuities (1 of 3)

- Immediate
  - Single lump sum payment
  - Payments to annuitant begin immediately
- Deferred
  - Payments to annuitant begin at some future date
  - Usually a retirement income stream
  - Purchased either in a lump sum or periodic installment premiums

Types of Annuities (2 of 3)

- Flexible Premium Deferred Annuity (FPDA)
  - Allows insured to vary the premiums paid
  - Retirement income is a function of total premiums paid
- Single Premium Deferred Annuity (SPDA)
  - Lump sum payment of premium
  - Can use proceeds from a life insurance policy to purchase a single premium annuity

Types of Annuities (3 of 3)

- Fixed
  - Fixed interest rate over a period of time
  - Provides more security than a variable annuity contract
- Variable
  - Invests in "sub-accounts"
    - Stock or bond mutual funds
  - No guarantee of return on investment
  - Owner accepts more investment risk
  - Appropriate if the client wants to keep pace with inflation
- Equity Indexed
  - Form of fixed annuity linked to an index
  - Provides some participation to index performance
  - Usually limits downside risk of index

Timing of Annuity Payments (1 of 3)

- Pure Life Annuity
  - Payments made to annuitant over their lifetime.
  - Payments stop at death of annuitant
  - Risk of receiving one payment, then dying

Timing of Annuity Payments (2 of 3)

- Life Annuity with Guaranteed Minimum Payments (Period Certain)
  - Payments continue for a minimum term, payable to annuitant's beneficiary if death occurs prior to minimum term or
  - Until death of annuitant if annuitant's lifetime exceeds minimum term
  - The monthly income to the annuitant is less under this method than a pure life annuity

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Timing of Annuity Payments (3 of 3)

- Installment Refund Annuity
  - Payments continue for a minimum term or
  - Until death of annuitant with a cash refund option
    - For example: Sam paid $250,000 for his annuity. He received $175,000 in payments prior to his death. His beneficiary would receive $75,000 ($250,000 - $175,000)
- Joint and Survivor Annuity
  - Two annuitants, usually spouses
  - Payments continue until death of second annuitant
  - Payments lower than Pure Life Annuity

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Practice Question 3

Frank is 68 years old and has invested assets of $500,000. Frank's family has a history of living beyond 100 years. Frank is concerned about maximizing his retirement income and making sure he doesn't outlive his retirement assets. Which insurance product would you recommend?

A. Installment refund annuity
B. Pure life annuity
C. Whole life insurance
D. Life annuity with guaranteed minimum payments

Taxation of Life Insurance (1 of 2)

- Death benefits are generally excludable from taxable income
- Interest earned on cash surrender value are not taxable until withdrawn
  - Cash value is not taxable if withdrawn at death
- Loans against life insurance are tax-free
  - Not including a MEC

Taxation of Life Insurance (2 of 2)

- Exchanges for life insurance or annuity create different taxable events:

- Give up Life Insurance for Life Insurance – tax free
- Give up Life Insurance for Annuity – tax free
- Give up Annuity for Life Insurance – Taxable
- Give up Annuity for Annuity – tax free

Taxation of Benefits Received During Life (1 of 3)

- Dividends
  - Not taxable, considered a return of basis (or premiums)
  - If dividends exceed premiums, then taxable
- Withdrawals
  - If a MEC – taxed on a LIFO basis (interest first)
    - 7 Pay Test
    - Taxed as ordinary income until CV equals accumulated premiums
    - MEC's subject to 10% penalty if withdrawals before age 59 1/2
  - Not a MEC – taxed on a FIFO basis (basis first)
    - Withdrawals considered a return of principal until basis has been distributed, then taxed as ordinary income

Taxation of Benefits Received During Life (2 of 3)

- Transfer of Policy for Value
  - Taxable to transferee to the extent proceeds exceed basis
  - Exceptions to Transfer for Value Rule:
    - Transferred to the insured
    - Transferred to a business partner of the insured
    - Transferred to a partnership of the insured
    - Transferred to a corporation in which insured is a shareholder
    - Transfer that results in carryover basis from transferor to transferee
  - Examples of Transfer for Value Exceptions
    - Mike forms a partnership and transfers a life insurance policy to the partnership.
    - Jim's daughter owns a policy on Jim and transfers the policy to Jim.
    - Gifting life insurance that has a basis (cash value).

Taxation of Benefits Received During Life (3 of 3)

- Premiums
  - Not tax deductible by individuals
  - Group life:
    - Insurance premiums paid by an employer are deductible by the employer
    - Premiums paid by employer are taxable income to the employee for coverage in excess of $50,000
  - Key employee and split-dollar:
    - Insurance premiums paid by an employer are not deductible by the employer

Example

Frank's salary is $100,000. His employer provides 2x salary in group term coverage. The cost is $.12/month for $1,000 in coverage. How much income must Frank impute?

$100,000 x 2 = $200,000 Amount of insurance

$200,000 - $50,000 = $150,000 of taxable coverage

$150,000 ÷ $1,000 = 150 x $.12 x 12 = $216 of imputed income.

Taxation of Installment Option/Annuities

- Calculate the exclusion/inclusion ratio:

Monthly payment x 12 months x life expectancy = Total Payments

$$\frac{\text{Basis}}{\text{Total Payments}} = \text{Exclusion Ratio}$$

Exclusion Ratio x Monthly Payments = Amount Excluded from Income

- If payments are beyond life expectancy, then 100% of payments are included in taxable income

Taxation of Installment Option/Annuity Example

Peter, elects an option on a policy with a basis of $500,000. He will receive $4,000 per month for the remainder of his life, which is expected to be 20 more years. How much of the installment payments are taxable and how much is excluded from taxable income?

Exclusion Ratio:

$4,000 x 12 x 20 years = $960,000 total expected payments

$500,000 Peter's basis in the policy

500,000 / 960,000 = 52% exclusion ratio

52% of each payment is excluded from gross income

$4,000 x .52 = $2,080 return of basis

$4,000 x .48 = $1,920 taxable as ordinary income

Example Question

Just prior to the payout period the amount of money that is available in the contract as principal paid in over the life of the annuity is determined to be $200,000. The total annuity payments based on life expectancy is $360,000. The annuity payment is calculated at $24,000 per year. Our client wants to retire at age 65. The IRS Table multiplier from the IRS Table for age 65 is 15. What amount of each monthly payment will be tax-excludible to the annuitant?

A. $1,111.11 until the principal amount has been exhausted.
B. $888.89 for the life of the annuitant.
C. $1,111.11 for the life of the annuitant.
D. $888.89 until the principal amount has been exhausted.

Example Question Answer

Correct answer is "A."

Divide the figure of paid-in principle ($200,000) by the figure of current cash in the annuity ($360,000).

$$\frac{\$\,200{,}000}{\$\,360{,}000} = 55.6\%$$ (this is the exclusion ratio)

The exclusion percentage is then applied to each monthly payment:

$2,000 x 55.6% = $1,111.11 (of each payment is tax excludible)

The exclusion applies only until the principal is returned… after that all payments are fully taxable!

Taxation of Viatical Settlements

- Insured sells life insurance policy
- Insured must be terminally ill (expected to die within 24 months) or chronically ill
- Proceeds are not subject to income taxes to the insured
- Purchaser incurs tax liability to extent the proceeds of the policy exceed the purchase price

Policy Taxation Summary

		Original Beneficiary	
Policyholder's Options	Policyholder	Life Insurance	Adjustment
Hold Policy Until Death	N/A	Exclude DB from gross income	N/A
Borrow Against CSV	Loan not taxable unless policy is a MEC	Exclude DB from gross income	DB reduced by outstanding loan
Receive Accelerated DB	Generally tax free	Exclude DB from gross income	DB reduced by accelerated DB
Surrender Policy for CSV	CSV -Premiums = Ordinary Income*	N/A	N/A
Sell Policy to Viatical	Generally tax free	N/A	N/A
Key: CSV = Cash Surrender Value; DB = Death Benefit			

* Based on Revenue Ruling 2020-5

Taxation of Annuities

- Withdrawals prior to the start of the annuity.
  - For pre-August 14, 1982 annuities, a FIFO method is used for withdrawals such that withdrawals up to the owners basis are not taxable but rather are as a return of capital.
  - For annuity contracts purchased after August 13, 1982, the withdrawal rule is LIFO which means that withdrawals are taxed to the extent of earnings.

Exam Tip: Don't worry about the month, just know prior to 1982 – FIFO, after 1982 - LIFO

Major Medical (1 of 3)

- Covers hospitalization, physician and surgeon fees, physical therapy, prescription drugs
- Unlimited lifetime and annual limits
- Eye exams and dental care are excluded
- Usually an 80/20 coinsurance clause, with a max out of pocket
  - Insurer pays 80% of expense above deductible
  - Insured pays 20% of expense above deductible

Major Medical (2 of 3)

- Each family member must satisfy a deductible.
  - Usually a maximum of 3 deductibles per family
- The coinsurance portion also applies to each family member.
- These are common but vary from plan to plan.
- ACA put in place a max out of pocket for all new plans.

Major Medical (3 of 3)

- Steps to Solve Stop Loss Limit
  - Insured always pays deductible first
  - Insured pays coinsurance percentage to max out of pocket.
  - After paying coinsurance percentage of the maximum out of pocket amount, insurer pays 100%

Major Medical Example

Insured suffers $10,500 loss in connection with hospital and doctor bills, a $500 deductible and 80/20 co-insurance, with a max out of pocket of $1,500.

Payment made as follows:

Amount of loss	$10,500
Less: Deductible	(500)
	$10,000

Insured pays (([10,000 x 20%] + deductible) capped at $1,500)	$ 1,500
Insurer pays	$ 9,000

Sample Question

Let's assume that covered expense charges were $5,250 for an insured with a $250 deductible and an 80/20 coinsurance with a $1,500 max out of pocket. The payments would be divided between insurer and insured how?

A. Insured pays $1,500; Insurer pays $3,750
B. Insured pays $4,000; Insurer pays $1,250
C. Insured pays $1,250; Insurer pays $4,000
D. Insured pays $2,750; Insurer pays $2,500

Sample Question - Answer

	The Insured Pays	The Insurer
Deductible	$ 250	$ 0
Coinsurance		
$5,000 x 20%	$1,000	
$5,000 X 80%		$4,000
Totals	$1, 250	$4,000

Note: Insured's share was under the MOOP, so it did not apply.

Practice Question 4

John has a group major medical policy with the following provisions: A $250 deductible, 80/20 coinsurance and an out of pocket limit of $1,000, after which the insurance company pays 100%. John is injured in a biking accident and incurs $6,250 in medical expenses. How much will John have to pay?

A. $250
B. $1,000
C. $1,250
D. $6,000

All PPACA compliant policies should follow this approach.

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Patient Protection & Affordable Care Act (PPACA) 1 of 3

- Requires most U.S. Citizens/legal residents to have health insurance.
  - The tax penalty for non-compliance will be zero for months beginning after December 31, 2018.
- Employer Requirements:
  - Assesses employers with 50 or more full-time employees that do not offer affordable coverage, a fee of $4,460 (2024) per full-time employee, excluding the first 30 employees from the assessment. (< 50 employees are exempt).

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Patient Protection & Affordable Care Act (PPACA) 2 of 3

- All health insurance policies must meet the following criteria:
  - Provide 'essential benefits' per Health & Human Services Department.
  - Existing employer plans that exceed minimum coverage are not affected.
  - Guarantee issue (no pre-existing condition clause) and renewability. Allows rating variation based only on age, premium rating area, family composition, and tobacco use.
  - Dependent coverage for children up to age 26.
  - Prohibits lifetime limits and annual limits on coverage.

Patient Protection & Affordable Care Act (PPACA) 3 of 3

- Plan Categories:
  - Bronze plan represents minimum allowable coverage and covers 60% of the benefit costs, with an out-of-pocket limit equal to the Health Savings Account (HSA) limit.
  - Silver plan covers 70% of the benefit costs, same out-of-pocket limit.
  - Gold plan covers 80% of the benefit costs, same out-of-pocket limit.
  - Platinum plan covers 90% of the benefit costs, same out-of-pocket limit.
  - Premium and cost sharing credits available to individuals/families with income between 133-400% of the federal poverty level.

HMO & PPOs

- Preferred Provider Organizations (PPOs)
  - Network of health care providers
  - Provider offers discount on services
  - Insured receives high rate of reimbursement when using providers, outside provider list will be increased deductibles and coinsurance.
  - PPO preserves employee's option to choose provider outside the network.

- Health Maintenance Organization (HMOs)
  - HMOs offer medical and related services to their program participants for a monthly fee.

Comparing HMOs and PPOs

	DIFFERENCES		**SIMILARITIES**
	Cost	**Doctor Access**	**Paperwork**
HMO	Cheaper	In-Network Only	None if In-Network
PPO	More Expensive	More Flexibility	

Health/Medical Savings Accounts

- HSA's replaced MSA's (no new MSA's)
- Individual must have medical insurance under a high deductible health plan (HDHP).

HSA - 2024	Single	Family
HDHP deductible	$1,600	$3,200
MOOP	$8,050	$16,100
Annual Contribution	$4,150	$8,300

Age 55+ $1,000 catch-up contribution allowance

Health/Medical Savings Accounts

- Distributions for qualified medical expenses (those expenses qualifying as medical expenses for purposes of the itemized deduction) are tax-free.
  - Permitted Expenses:
    - Dental Expenses (including orthodontics) & Vision
    - COBRA premiums and Long-term care premiums
    - Healthcare premiums while receiving unemployment
    - Medicare and other health care coverage (65 or older)
    - Over-the-counter (medical use, ie pain relief, cold relief, etc.)
  - Expenses that are not permitted:
    - Cosmetic surgery

Health/Medical Savings Accounts, Cont.

- Distributions for non-qualified medical expenses are subject to income tax and a 20% penalty if taken before age 65.
- Distributions for non-qualified medical expensed are subject to income tax only at 65 or older (no penalty).

Exam Tip: Dental, orthodontic and vision care expenses are qualified expenses for an HSA. No tax penalty will apply.

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Practice Question 5

Which of the following payments are not permitted from an HSA?

I. Dental Expenses
II. COBRA Premiums
III. Long-Term Care Premiums
IV. Medicare if you were 65 or older

A. I and II
B. II and III
C. I, III, and IV
D. All of the above are permitted expenses.

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Health Insurance

- Individual health insurance policies have provisions regarding the insurance company's right to continue or discontinue the policy.
  - Non-cancelable policies:
    - Continuous
    - Guaranteeing the insured the right to renew until a specific age or stated number of years
    - Premium is fixed
  - Guaranteed renewable policy:
    - Right to renew is guaranteed
    - Insurance company is allowed to adjust the premiums
  - All policies issued 2014 or later must be at least Guaranteed Issue and Renewable per PPACA.

COBRA

- To be eligible for COBRA group coverage must terminate because:
  - Death of covered employee
  - Voluntary or involuntary termination
  - Reduction in hours from full time to part time
  - Separation of covered employee from spouse
  - Employee becomes eligible for Medicare
  - A dependent child is no longer eligible for coverage (age, left school)

- Employer may charge 2% for administrative expenses. (Total expense to employee is 102% of actual insurance cost)

COBRA

- COBRA only applies to employers who offer a group health plan and have at least 20 full-time equivalent employees
- Less than 20 total employees, not required to offer COBRA
- Employer must offer coverage for :
  - 18 months for reduction in hours or normal termination
  - 36 months for death, divorce, Medicare eligibility
  - 36 months for loss of dependency status by children of employee
  - Up to 29 months if employee meets Social Security definition of disabled
- Employees have 60 days to make a COBRA election.

Exam Tip: To be offered COBRA, there must be 20+ employees, employer offers group health and the employee is already participating in the group health plan.

Long Term Care

- Provides coverage for nursing home stays and other types of care not covered by health insurance
- Seven types of coverage:
  - Skilled Nursing – traditional nursing home, physician ordered
  - Intermediate Nursing – occasional nursing care, physician ordered
  - Custodial Care – assistance with eating, dressing, bathing, etc..
  - Home Health Care – in-home nursing or necessary assistance
  - Assisted Living – apartment style living with healthcare services
  - Adult Day Care - daily assistance while spouse or family member works
  - Hospice Care – for terminally ill, at home, hospital or nursing facility

Long Term Care

- Eligibility for benefits
  - Must be chronically ill or suffer from substantial cognitive impairment
    - Chronically Ill - Unable to perform 2 of 6 ADL's for at least 90 days
    - Substantial cognitive impairment - Behavior threatens own/others health and safety
- Activities of Daily Living
  - Eating, bathing, dressing, transferring from bed to chair, using the toilet, and continence

Exam Note: Note walking is NOT a current ADL.

B
E
D
T
C

Exam Tip:
BED To Chair

LTC Costs

- Costs are based on variables
  - Elimination period
  - Daily benefit
  - Benefit period

Long Term Care – Tax Benefits

- Premiums are tax deductible and benefits are tax free as long as policy is "Qualified"
  - No surrender value, limited to qualified long-term care services, use dividends to reduce future premiums or increase benefits, meet consumer protection laws, does not pay for expenses covered under Medicare

Exam Tip: Make a flash card of "qualified" requirements for LTC. Also, the Board is most likely to test the > 70 deduction amount.

Long Term Care – Tax Benefits

Age of Insured	Maximum Deduction (2024)
$\leq$ 40	$470
41 – 50	$880
51 – 60	$1,760
61 – 70	$4,710
> 70	$5,880

Exam Tip: Just know that a portion of LTC premiums are tax deductible subject to medical deduction of 7.5% of AGI.

Practice Question 6

Which of the following is/are correct?

I. LTC policies are designed to pay for skilled nursing care, intermediate care, custodial care and home care.
II. LTC polices are designed to provide coverage for major medical expenses including extended care in an intensive care unit.
III. A LTC policy must be non-cancelable to qualify for deductibility.
IV. There is a cap on the amount of LTC premiums that can be deducted.

A. I and II only.
B. I and IV only.
C. II and III only.
D. III and IV only.

Disability Income Insurance

- Definitions
  - Any Occupation
    - Considered disabled if insured cannot perform the duties of "Any Occupation"
    - Less expensive premium
  - Own Occupation
    - Considered disabled if insured cannot perform the duties of his "Own Occupation"
    - More expensive, ideal for specialized, high paying fields

Disability Income Insurance, Cont.

- Definitions
  - Modified Any Occupation
    - Considered disabled if unable to perform duties of gainful occupation they're reasonably fitted by education, experience, training, and prior economic status
  - Split Definition
    - Begins with own occupation, and moves into modified any occupation

Disability Insurance Characteristics

- Benefit Period
  - Short Term: Two years or less
  - Long Term: Coverage until normal retirement age, death or for a specified period of time
- Elimination Period
  - Amount of time until benefits begin
- Waiver of Premium
  - If disability is for a short period of time
- Integration with Social Security
  - May reduce benefits if receiving social security disability benefits

Disability Insurance Characteristics

- If Employee pays the premium:
  - Premiums are Not Deductible;
  - Benefits ARE Tax-Free.
- If Employer pays the premium:
  - Premiums ARE Deductible to Employer:
  - Benefits to Employee IS TAXED
- If Employee pays premium with pre-tax dollars (cafeteria plan):
  - Benefits to employee are TAXED.

Practice Question 7

Which of the following best describes an elimination period on a disability policy?

A. This is the specific time period that a disability income insurance policy must be in force before it extends coverage to an insured for the covered perils.

B. This exists so that if an insured has suffered a loss of earnings due to illness or injury of at least 20% to 25% of earnings, then benefits will be received.

C. This is the period that serves as the deductible in a disability income policy that must be met before the company will commence payments for disability.

D. This is the period in which the insurer can contest the policy and decline coverage if there are any discrepancies or omissions on the insured's application.

Personal Property and Liability Insurance

- Home Owners (HO) insurance: Basic coverages
- Section I Coverages:
  - Coverage A: Dwelling
  - Coverage B: Other structures
  - Coverage C: Personal property
  - Coverage D: Loss of use
- Section II Coverages:
  - Coverage E: Personal Liability
  - Coverage F: Medical Payments to Others

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Personal Property and Liability Insurance

- Basic Named Perils:
  - 1. Fire — 2. Vehicles
  - 3. Lightning — 4. Smoke
  - 5. Windstorm — 6. Vandalism
  - 7. Hail — 8. Explosion
  - 9. Riot — 10. Theft
  - 11. Aircraft — 12. Volcano

Exam Tip: Make a flashcard: S-L-W & F-V-V-V-H-E-A-R-T (Pronounced Slow Favorite) OR VVV WEATHR FS.

Whichever you prefer and works for you!

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Personal Property and Liability Insurance

- Broad Named Perils:
  - Basic Named Perils 1-12, plus:
  - 13. Falling objects
  - 14. Weight of ice, snow, sleet
  - 15. Accidental overflow of water (not flood)
  - 16. Sudden bursting of appliances
  - 17. Freezing of system or appliance
  - 18. Damage from electrical current

Exam Tip: Basic + FAS-FWD (Pronounced Fast Forward) or SWADe FF. Whichever works best for you.

Open Peril Policy

- An open peril policy protects against all perils, except those perils that are specifically excluded from the policy.
- Exclusions include neglect (termite damage), flood, and earthquakes.

General Exclusions for all HO Policies

- Movement of ground
  - Includes earthquake or landslide
- Ordinance or law
  - Loss resulting from regulations regarding construction or demolition
- Damage from water
  - Floods, water from underground and sewer backup
- War or nuclear hazard
  - Including nuclear power plant
- Power failure
  - Such as a power plant failure that causes a loss
- Intentional act
  - Burning down your own house
- Neglect
  - Must take reasonable means to save property and mitigate loss

Exam Tip: Make a flashcard of exclusions. Likely to be asked which peril is excluded.

Section I Coverages A &B

- Coverage A: Dwelling
  - Covers repair or replacement of the house, attached structures and building materials on premises
  - Purchase an amount equal to replacement cost (cost to rebuild) of the building
  - Insured must carry at least 80% of replacement cost of the building (coinsurance)
- Coverage B: Other Structures
  - Includes detached garages, storage buildings, etc..
  - Limit is usually 10% of the amount of Coverage A
  - Other structures will not be covered if used for business purposes

Section I Coverage C

- Coverage C: Personal Property
  - Includes furniture, electronics, clothing, paintings, etc.
  - Limit is usually 50% of Coverage A amount
  - Coverage is still effective, regardless of where property is located at the time of loss
  - Standard coverage is for actual cash value, need an endorsement for replacement cost
  - Limits are placed on personal property losses, e.g. cash, coin collections ($200), jewelry ($1,500)
  - Exclusions include: property of roomers/renters or property in an apartment rented to others.

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Section I Coverage D

- Coverage D: Loss of Use
  - Combination of additional living expenses and loss of rental income
  - Loss resulting from living in a hotel because residence is damaged or being repaired
  - Alternatively, if rental income is lost due to a property being damaged, the insured may collect

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Section II Coverage E

- Coverage E: Personal Liability
  - Protects the insured against claims arising out of both bodily injury and property damage.
  - The insurer will cover both the damages and the costs of any defense of the claim or suit.

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Section II Coverage F

- Coverage F: Medical Payments to Others
  - Includes coverage for the medical payments to others for injuries that arise even where the insured is not liable for the injury.
  - Medical expenses include reasonable charges for medical procedures
  - Does not apply to the insured or members of the insured's household.
  - This coverage is not liability coverage and is not based on fault.

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Coverage F: Medical Payments to Others (continued)

- One of the following conditions must be met for an individual to receive medical payments coverage from the insured:
  - The injury occurs while the person has permission to be at the insured location.
  - The injury occurs while the person is away from the insured location and is caused by a condition at the insured location or on property immediately adjoining the insured location.
  - The insured injures another person while away from the insured location.
  - An animal owned by or in the care of the insured injures an individual off the insured premises.

General Provisions of Sections I & II

- Assignment of a Homeowners policy is not valid without the insurance company's written consent.
- The insured is required to assign their right of recovery against a third party if the insurance company pays for a loss caused by the third party (subrogation).
- The policy will be void if the insured willfully misrepresented or concealed any material fact concerning the insurance.

Homeowners Insurance Forms Available (1 of 3)

- HO-1 Basic Form: Only covers basic named perils (1-12)
- HO-2 Broad Form: Basic and broad named perils (1-18)
- HO-3 Special Form
  - Provides coverage on dwelling and other structures on an open perils basis resulting in coverage against all physical loss other than those specifically excluded.
  - Personal property is covered on a named-peril basis

Homeowners Insurance Forms Available (2 of 3)

- HO-4 Contents Broad Form (designed for renters)
  - Designed for tenants, and provides protection for furniture, clothes, and other personal property against the same perils as HO2 Broad Form.
  - Tenant's improvements and betterments coverage protects the insured for improvements made by the insured to the rented dwelling.
- HO-5 Comprehensive Form
  - Dwelling and personal property covered on an open peril basis

Homeowners Insurance Forms Available (3 of 3)

- HO-6 Unit Owners Form (condo owners)
  - Covers basic and broad named perils, but not building coverage
  - The insurance responsibility in a condo arrangement is divided between the condo unit owner and the condo association.
  - Provides coverage for the personal property of the condo owner for the same named perils as HO2.
  - Endorsements can be added to HO6 to provide open peril coverage on the unit owner's building items, personal property, loss of unit rental and assessment coverage.
- HO-8 Modified Form
  - Covers repair rather than replacement cost, basic perils covered
  - Designed to cover losses to structures where the replacement cost for the home exceeds the market price for the home.

Summary of HO Forms

	HO1	HO2	HO3	HO4	HO6	HO8
Coverage A Dwelling	Basic	Broad	Open	N/A	Broad	Basic
Coverage B Structures	Basic	Broad	Open	N/A	N/A	Basic
Coverage C Personal Property	Basic	Broad	Broad	Broad	Broad	Basic
Coverage D Loss of Use	Basic	Broad	Open/Broad	Broad	Broad	Basic

Exam Tip: Make a flashcard of the Broad/Open Peril forms and memorize. All else will be Basic.

Flood Insurance

- The National Flood Insurance Program provides subsidized flood insurance to property owners in qualified areas.
- The coverage uses two forms:
  - Coverage on dwellings and contents.
  - Coverage on other types of ACV basis but RC is available.
- A flood policy has a 30-day waiting period.
  - There is a 1-day waiting period if flood insurance is elected within 13-months following a map update to include your residence.

Inland Marine

- Coverage that is usually included on the Homeowners policy as a scheduled endorsement (scheduled floater) are:
  - Personal furs
  - Jewelry
  - Silverware floater coverage is the same as jewelry
  - Golf equipment floater covers golf equipment kept in a locker in a clubhouse
  - Camera, fine art and antiques, stamp and coin collection, musical instrument, wedding presents, and personal property floaters

Practice Question 8

Where would a financial planner look in a client's homeowner's insurance policy to determine if specific jewelry or personal property is covered?

A. Part A – Dwelling
B. Part B – Other Structures
C. Part C – Personal Property
D. Endorsements

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Insurance on Watercraft

- Boat owner's policy covers liability, physical damage, medical payments and uninsured watercraft.
- Physical damage coverage is ACV coverage for the boat and permanently attached equipment
- The motor including remote controls and batteries, and boat trailer, on an open peril basis that is subject to wear and tear, gradual deterioration and mechanical breakdown.

Exam Tip: HO3 covers boats up to 25HP.

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Personal Auto Policy

- Part A: Liability Coverage
- Part B: Medical Payments
- Part C: Uninsured Motorists
- Part D: Coverage for Damage to Your Auto
- Part E: Duties After an Accident or Loss
- Part F: General Provisions

Personal Auto Policy Part A

- Part A: Liability Coverage
  - Covered persons include you, any family member, any person using your car with your permission, any organization responsible for the conduct of someone driving your covered auto, any organization responsible for your conduct while driving a non-owned auto

Personal Auto Policy Part A, Cont.

- Coverage amounts are limited as follows:
  - Bodily Damage Per Person
  - Bodily Damage Per Occurrence
  - Property Damage Per Occurrence
    - Split Limits: 50/100/25
    - Stated in thousands of dollars
- State law minimum limits automatically increase when driving from state to state
- Insurance on the auto is primary insurance to recover any loss. Driver's insurance is secondary

Personal Auto Policy Part B

- Part B: Medical Payments
  - Covered persons include you or any family member while occupying the auto, you or any family member as a pedestrian struck by an auto, any other person while occupying your covered auto
  - Coverage amounts are limited as follows:
    - Per Person, Per Occurrence Basis
      - $5,000 limit per person, four persons in a car, then $20,000 limit
  - Exclusions:
    - Public livery, racing, auto used without permission

Personal Auto Policy Part C

- Part C: Uninsured Motorists
  - Pays what an "under-insured" or uninsured driver should have paid
  - Under-insured or uninsured must have been at fault
  - Covered persons include you or any family member while occupying the auto, any other person while occupying your covered auto, any person who might have been entitled to damages, you or your family member as a pedestrian
  - Exclusions:
    - Public livery, regular use of a non-owned vehicle, auto used without permission, auto used in insured's business

Personal Auto Policy Part D

- Part D: Coverage for Damage to Your Auto
  - Provides direct damage coverage on your covered auto and any non-owned auto (rental or borrowed car)
  - Collision
    - Protects against an accident involving another car, running off the road, into a creek or lake, tree, wall
  - Comprehensive or Other Than Collision
    - Covers the following perils: falling objects, fire, theft, explosion, earthquake, windstorm, hail, water, flood, mischief, vandalism, riot, contact with a bird or animal and breakage of glass

Personal Auto Policy Part D, Cont.

- Insurance company has the option of paying for repairs or actual cash value of auto
- Exclusions:
  - Public livery, radar detectors, most electronic equipment, nuclear damages, auto used without permission, auto used in insured's business

Exam Tip: Know examples of Collision and Comprehensive (or Other Than Collision)

Personal Auto Policy Part E and F

- Part E: Duties After an Accident or Loss
  - Notify the insurer
  - File proof of loss
  - Cooperate with the insurer in the investigation
  - Must file a police report if theft or uninsured motorist
- Part F: General Provisions
  - Only provides coverage in the United States, Puerto Rico and Canada
  - Not effective in Mexico

Summary of Personal Auto Policy Exclusions

- Motorcycles or other self-propelled vehicles with less than four wheels are excluded.
- Company cars or other vehicles furnished for regular use are excluded.
- Coverage is eliminated for autos furnished to a family member for regular use. This is aimed at resident relatives using other than a 'covered auto'. The insured or spouse would be covered for such use under this exclusion.
- Any vehicle being used in, or practicing for, a racing competition.

Practice Question 9

Your client has asked you what qualifies as a covered auto under his PAP?

A. Your client's motorcycle
B. The company car his spouse drives.
C. A friend's car that your client is using while his is in the shop.
D. A golf cart used on your property.

Personal Auto Policy
No Fault Insurance

- Each party involved in an accident files a claim and collects from their own insurance company for any injuries sustained

Legal Liability (1 of 2)

- Negligence
  - Failure to acts as a Prudent Man
- Defense to negligence
  - Assumption of risk
    - Not available in all states
- Negligence on the part of the injured party
  - Contributory
    - Persons negligent actions contributed to loss, cannot recover

Legal Liability (2 of 2)

- Negligence continued
  - Comparative
    - Persons negligent actions contributed to loss, can recover portion of loss from other negligent party
  - Last Clear Chance Rule
    - The plaintiff can collect even if there was contributory negligence on the plaintiff's part if the plaintiff can prove the defendant had a last clear chance to avoid the accident

Personal Liability Umbrella Policy (PLUP)

- Protection against legal obligations that arise from negligent acts
- Pays the costs, up to the face of the policy, that result in liability
- Usually provides defense for the insured in the event of a lawsuit
- Requires higher liability limits on underlying auto and homeowner policies
- The coverage includes exposure at the premises of the residence or away from the residence.

Exam Tip: If a client doesn't have a PLUP – They need it! A PLUP is always the right answer! *Look for 1 million in coverage*

Business and Professional Insurance

- Errors & Omissions
  - Covers negligent acts, errors and omissions
  - Many professionals carry E&O Policy
    - Accountants
    - Lawyers
    - Engineers
    - Financial Planners
- Malpractice Insurance
  - Where bodily injury may occur
    - Doctors
- CLUP
  - Available for commercial liability umbrella policy
- BAP
  - Business auto policy for auto's used in the course of business

Categories of Social Security

- Retirement Benefit
- Disability Benefit
- Death Benefit
- Survivors' Benefits
- Medicare

OASDI is 6.2% (both ER and EE) up to wage base $168,600 in 2024.

Medicare is 1.45% (both ER and EE) on an unlimited amount of wages.

Additional Medicare Tax of 0.9% (EE) on income in excess of $200,000 if single or $250,000 for MFJ (unlimited amount of wages).

Practice Question 10

Paul earns $180,000 in salary this year. What is the total FICA tax for 2024?

A. 12,897.90
B. 13,063.20
C. 26,126.40
D. 27,540.00

Reduction of Benefits

- 100% of PIA (Primary Insurance Amount) at normal full retirement age.
- Permanent reduction in retirement benefits
  - Reduced by 5/9 for each month, for first three years that a worker retires early
  - Reduced by 5/12 for each month beyond three years

Exam Tip: Memorize 5/9 & 5/12 formula.

Reduction of Benefits
Example 3 Years Early

- Joe's full retirement age is 65, but decides to take retirement benefits at age 62. What will be the amount of his benefit?

Reduction calculated as follows:

65 – 62 = 3 years or 36 months

36 x 5/9 = 20% of benefits will be reduced

Therefore, he receives 80% of PIA at age 62

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Reduction of Benefits
Example 5 Years Early

- Joe's full retirement age is 67, but decides to take retirement benefits at age 62. How much will his benefit be?

Reduction of benefit:

67 – 62 = 5 years or 60 months

First three years: 36 x 5/9 = 20%, plus

Next two years: 24 x 5/12 = 10%

Total reduction is 20% + 10% = 30%

Therefore, he will receive 70% of his PIA at age 62

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Increase in Benefits

- Based on the year of birth, retirees gain an additional increase in monthly benefits by delaying the receipt of Social Security each month after reaching their full retirement age (FRA) until age 70. The annual and monthly increases are listed below.

Year of Birth	Yearly Rate of Increase	Monthly Rate of Increase
1933-1934	5.5%	11/24 of 1%
1935-1936	6.0%	1/2 of 1%
1937-1938	6.5%	13/24 of 1%
1939-1940	7.0%	7/12 of 1%
1941-1942	7.5%	5/8 of 1%
1943 or later	8.0%	2/3 of 1%

Exam Tip: Know the 8%.

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Practice Question 11

Jeanette's full retirement age is 67. Her expected monthly benefit is $1,000. If she waits until turning 70 years old to receive Social Security, what will be her monthly retirement benefit?

A. $1,000
B. $1,080
C. $1,240
D. $1,360

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Disability Benefit

- Social Security Definition: Disability is expected to last for 12 months or disability will result in your death AND cannot perform the duties of any occupation.
- Severe physical or mental impairment that is expected to prevent worker from performing substantial work for at least one year or result in death
- Depends on credits earned and when disabled

Exam Tip: Know social security definition of disability.

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Medicare

- Provides hospital and medical insurance
  - Must have attained age 65 years OR
  - Disabled for two years

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Retirement Eligibility

- To qualify for retirement benefits a worker must be "fully insured"
  - Must earn 40 quarters of coverage
  - Based on dollar amount of earnings
  - Indexed each year
  - 2024: 1 Quarter = $1,730 in wages subject to social security

Disability Eligibility

- Covered for disability if:
  - Age 31 and greater; fully insured (40 quarters) and earned 20 quarters in the last 40 quarters
  - 24 - 31; ½ of calendar quarters elapsed since worker reached age 21
  - If ages 21-24; 6 quarters earned
- Currently Insured has no spousal benefit.

Social Security Beneficiaries

- Most important:
  - Disabled insured worker under age 65
  - A retired insured worker age 62
  - Spouse of a retired or disabled worker
    - Who is at least 62 OR
    - Is caring for a child under age 16 or disabled

Social Security Beneficiaries

- Most important:
  - Divorced spouse of a covered worker
    - If age 62 and
    - Married to the worker for at least 10 years and
    - Did not remarry
  - Widow at age 60
    - Care of child under 16

Summary of Beneficiaries

	Retirement	Survivorship	Survivorship	Disability
Note: all percentages for full retirement age	Fully Insured	Fully Insured	Currently Insured	Based on Age
Participant	100%	Deceased	Deceased	***100%***
Child Under 18	50%	75%	75%	50%
Spouse w/ Child under 16	***50%***	75%	75%	50%
Spouse Age @FRA	***50%***	***100%***	0%	50% *fully insured only
Dependent parent (at least age 62)	***0%***	***75/82.5%***	0%	0%

Exam Tip: Most important are in RED (*italicized*)

Practice Question 12

If a fully insured mother who is eligible for Social Security retirement benefits dies, which of her beneficiaries are eligible to collect benefits?

I. Her husband (52) with 14 and 15 year old children.
II. Dependent parents, ages 83 and 85, of the deceased mother.
III. Her 18 year old child.
IV. Her 60 year old ex-husband who has been remarried for 3 years and was married to the decedent for 12 years.

A. I only
B. I and II only
C. I, II and IV
D. I, II, III, and IV

Reduction of Benefits

- Benefits can be reduced if you earn too much
  - Overall benefit will be reduced
  - Benefit may be taxed

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Temporary Reduction in Benefits (2024)

- Early retirement
  - Benefit is reduced $1 for every $2 above earnings threshold for persons below full retirement age
    - Threshold: $22,320
- Full retirement age
  - In the year in which you reach the age of retirement. Benefit is reduced $1 for every $3 above earnings threshold
    - Threshold: $59,520

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Practice Question 13

Which of the following person's Social Security retirement benefits may be reduced the most for working and collecting benefits for 2024?

A. A 71 year old business owner earning $300,000.
B. A 62 year old who earned $24,000 through June and benefits began in July.
C. A 64 year old earning $25,000 a year at Sunglass Market in the mall.
D. A 63 year old receiving $40,000 a year from his company's defined benefit pension plan.

Taxation of Social Security Benefit

- Up to 85% of benefit may become taxable
- Thresholds are based on "combined income"
  - AGI Plus:
    - Nontaxable Interest
    - ½ of SS benefit

	MFJ	Single
1st Hurdle	$32,000	$25,000
2nd Hurdle	$44,000	$34,000

Medicare Benefits

- Federal health insurance for people 65 and older
  - Auto qualifiers regardless of age:
    - Receiving social security disability for at least 2 years
    - End stage renal failure
- Spouses can qualify at 65 based on the other spouses work record
- Three parts, Medicare A, B and D

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Medicare Part A

- Hospital Insurance (Covers Places):
  - Inpatient hospital care
  - Skilled nursing care following a covered hospital stay
  - Home health care
  - Hospice
- Covers:
  - Semi-private room, meals, operating and recovery room, lab tests, x-rays
- Does Not Cover:
  - Custodial services

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Medicare Part A (2024)

- Benefit periods are important to determine cost
  - Benefit period begins on 1st day in hospital and ends after 60 days of no further skilled care
  - Deductible is $1,632 per benefit period, 1st 60 days
    - Coinsurance
      - $408 per day for days 61-90
      - $816 per day for days 91-150 (lifetime reserve days - total of 60)
      - $204 Skilled Nursing care days (21-100),
        - first 20 days following a covered hospital stay are covered 100%

Exam Tip: Amounts just double

Medicare Part B

- Pays 80% of approved charges
- Covers doctor visits, lab tests, clinical research, durable medical equipment (wheelchairs, hospital beds, walkers, oxygen), mental health (inpatient, outpatient, partial hospitalization), getting a second opinion before surgery, some preventative care (ie flu)
- Does not cover
  - Dental care, dentures
  - Cosmetic surgery
  - Hearing aids
  - Eye exams
  - Routine physical exams (per medicare.gov)

Exam Tip: Know what Medicare Part B does NOT cover.

Medicare Part B (2024)

- Automatically enrolled in Part B, unless an individual opts out
- Premiums deducted from social security
  - Standard rate is $174.70 (could be higher depending on income)
- Deductible is $240 per year
  - After deductible Part B covers 80%

Medicare Part C

- Medicare Advantage or Medicare Managed Care Plan.
- Who can join a Medicare Advantage Plan?
  - You must have Medicare Parts A and B and live in the plan's service area to be eligible to join.
- How much do Medicare Advantage Plans cost?
  - In addition to your Part B premium, you usually pay one monthly premium for the services included in a Medicare Advantage Plan.

Medicare Part C

- What do Medicare Advantage Plans cover?
  - Must cover all of the services that Original Medicare covers except hospice care.
  - In all types of Medicare Advantage Plans, you're always covered for emergency and urgent care.
    - Medicare Advantage Plans must offer emergency coverage outside of the plan's service area (but not outside the U.S.).
  - Many Medicare Advantage Plans also offer extra benefits such as dental care, eyeglasses, or wellness programs. Most Medicare Advantage Plans include Medicare prescription drug coverage (Part D).

Medicare Part D

- Provides prescription drug coverage
  - Usually requires a monthly premium, deductible and coinsurance amount
  - Varies by plan

Medicare Coverage

- Medicare does not provide coverage if you are out of the country.
  - Exception: Medicare will pay if the closest hospital is in a foreign country.
    - Example: You are injured in a skiing accident in the US but near the Canadian border. If the closest hospital is in Canada Medicare will pay.

Applying for Medicare

- If receiving social security at 65
  - Automatically enrolled in Medicare

- If not receiving social security at 65
  - You must enroll

End of Insurance Planning

Dalton Education
BY CERIFI