

# Life & Health Insurance Advisor



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Life Insurance

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## Using Life Insurance for Charitable Giving

Life insurance does more than protect families from the financial costs of a breadwinner's untimely death. It can also help individuals make a substantial bequest to a favorite charitable organization and possibly enjoy a tax break as well.

**T**here are several ways life insurance can help you make a donation to a cause you believe in:

**1 Name the charity as the beneficiary of a life insurance policy you already own or buy for this purpose.** Instead of giving several hundred or thousand dollars to your charity every year, investing that money in life in-

urance premiums can guarantee a sizable donation, even if you should die prematurely. Your charity will receive a guaranteed contribution—the policy's death benefit—upon your demise. And since some life insurance policies offer a waiver of premium if you become disabled before age 65, you can guarantee this donation no matter what your health situation later in life.

Name the charity as the primary beneficiary if you want the death benefit to go to it first. If you want a family member to receive the death benefit and the charity to receive it only if your primary beneficiary dies before you do, name the charity as the contingent beneficiary.

### Tax consequences:

If you retain ownership of the policy, you receive no

income tax deduction for the policy's current value or any premium payments you make. However, you retain control over the policy and can change the beneficiary should your situation change.

**2 Apply for life insurance that the charity owns.** Many larger nonprofits have "planned giving" programs that assist donors in doing this. Instead of paying premiums to an insurer, you make a donation to the nonprofit to cover the premiums. This approach provides benefits to both the charity and the donor. According to the National Committee on Planned Giving, "If the charity provides the initial funding and is the owner of the policy, it may have the right to collect cash dividends, borrow against the policy, and make partial or complete surrenders of the policy."

**Tax consequences:** If you make an annual contribution to the charity for the amount of

## This Just In

The next Medicare enrollment period (or annual election period) occurs November 15-December 31. Eligible individuals can enroll in a Medicare health plan or Medicare prescription drug plan (Medicare Part D) during this time. You can also join, switch or drop a Medicare Advantage Plan when you first become eligible (three months before you turn age 65 to three months after the month you turn age 65).

The Centers for Medicare & Medicaid Services provides these important dates for Medicare-eligible individuals:

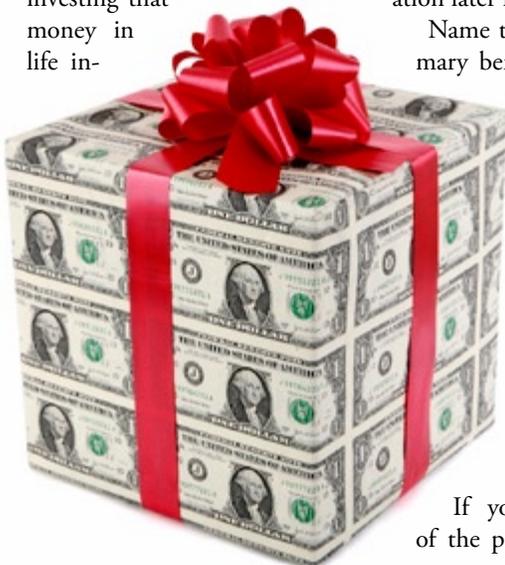
**October 2008:** Prepare and compare. Look at the cost, coverage and convenience offers. If you are satisfied with your current plan, you don't need to do anything; you will remain enrolled through next year.

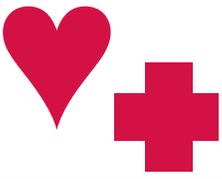
**November 15, 2008:** First day to change your Medicare health or prescription drug coverage for 2009.

**December 31, 2008:** Last day\* to change your Medicare prescription drug coverage for 2008.

**January 1, 2009:** New coverage begins if you made a change.

*\*You can also join, switch or drop a Medicare Advantage plan from January 1-March 31 of each year; however, you can't add or change to a plan with prescription drug coverage unless you already have Medicare prescription drug coverage.*





# HRAs vs. HSAs: What's Right for You?

When it comes to individual health coverage, self-employed people have more options than others. In addition to traditional health insurance and the Health Savings Account, or HSA, you can set up a Health Reimbursement Arrangement (HRA). Here's how HRAs and HSAs compare.

**H**RA's are employer-established arrangements that reimburse employees for medical and dental expenses not covered by insurance. They generally combine a high-deductible health plan (HDHP) with an employer-funded account. Contributions are tax-free, with no maximum. Employees can submit eligible healthcare expenses to the plan for reimbursement, including copayments, deductibles, dental and vision expenses, health insurance and long-term care premiums.

If you're self-employed, you can set up a health reimbursement arrangement for your business. All it requires is a document outlining the plan and sending notification to all eligible employees about the plan.

For the self-employed, the HRA offers the following advantages: 1) Reimbursements for

qualifying medical expenses count as a business expense, meaning you pay with pre-tax dollars. 2) You can structure the plan however you want. The employer defines expenses that qualify for account reimbursement under HRAs. Employers thus can restrict (or expand) the types of medical expenses that are reimbursable. If you want to reimburse medical, but not dental or vision expenses, you can. You can set annual limits to whatever level you want. You can also structure your plan so employees may carry over any unused balances. However, funds in the HRA typically remain with the employer when an employee leaves the company. 3) HRAs can be better for cash flow than other types of health plans. HRAs are "paper accounts" only, and accumulated balances will revert back to the employer. With HRAs, companies have more control over the account and typically are not

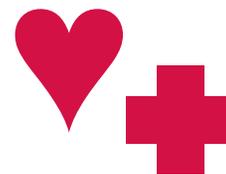
required to fund the account outside of general assets. 4) Relatively simple administration. The employer or its administrator must verify that expenses submitted for payment qualify as eligible medical expenses and fall under the plan's guidelines. You can administer an HRA in-house or hire a third-party administrator (TPA) to do this.

The HRA does have some pitfalls for the self-employed. First and foremost, your plan must not discriminate in favor of highly compensated employees. For example, if your HRA reimburses eligible expenses for the owner's spouse and family, you must do the same for all eligible employees. You can set eligibility standards for your HRA—such as having to work a minimum number of hours per month—but they must be reasonable. And unless you set annual reimbursement limits that you can realistically afford, a participant's catastrophic illness could cause severe strain to your company's finances.

**Health savings accounts, or HSAs, give the self-employed another coverage option.** To open a health savings account, you must have a qualified high-deductible health plan (HDHP). If your business either pays premiums for the HDHP and/or makes deposits into your HSA, your plan must not discriminate in favor of highly compensated employees. As with the HRA, account funds can reimburse the owner for eligible medical expenses. However, unlike an HRA, the HSA owner—the individual—controls how he or she spends the funds in his or her own account.

For self-employed individuals, HSAs have the following advantages: **1)** Funds build on





## PART D—continued from Page 4

drugs do not count — only your actual out-of-pocket expenses. Payments for non-formulary drugs or prescription drugs you buy in another country do not count toward either the initial coverage limit or out-of-pocket limit.

The following steps can help you avoid falling into the doughnut hole:

- 1 If your drug costs approach the initial cost limit, look for a prescription drug plan that provides some coverage in the coverage gap.
- 2 Switch your prescriptions to generic versions, whenever possible. Generics usually cost far less than their brand name equivalents.

- 3 Make sure the prescription drug plan you select includes any drugs you regularly take on its formulary.
- 4 Always use your drug plan card when you fill a prescription, even when you are in the doughnut hole. Drug plans usually negotiate lower prices than the standard retail price.
- 5 Ask your physician or clinic for free samples of any drugs you're taking.
- 6 Low-income seniors may qualify for patient assistance programs. For information, contact your state Health Insurance Assistance Program or Medicare at 800-663-4227. ■

## If you have other drug coverage

**M**edicare offers subsidies to employers to encourage them to continue their retiree drug plans. Firms whose coverage is at least as generous as Medicare Part D's qualify for tax-free subsidies equal to 28 percent of retirees' prescription drug costs between \$275 and \$5,600, per retiree, in 2009.

Although drug plan sponsors can offer alternatives to the standard benefit design, any variant offered must be at least "actuarially equivalent." That means on average an employer or union plan must provide the same or greater value.

If you qualify for Medicare but have other drug coverage that is at least as good as the standard Medicare drug benefit, it will be considered "creditable coverage." This means you can avoid higher premiums if you decide to sign up for the Medicare drug benefit in the future. ■

## HRAs vs. HSAs—continued from Page 2

a tax-deferred basis. **2)** HSAs allow employee contributions in addition to employer contributions, while HRAs are employer-funded only. This can reduce your costs of funding employee health care. **3)** HSAs may encourage wiser healthcare spending. HSA owners may spend more wisely because the funds in their account are fully portable and belong to them.

Disadvantages of HSAs include: 1) Your contributions are usually limited to 100 percent of the deductible of the HDHP, up to certain maximums. For 2009, those are

\$3,000 for individual coverage and \$5,950 for family coverage, with an additional \$1,000 "catch-up" contribution allowed for account owners age 55 or older. An HRA has no mandatory maximum contribution — the plan sponsor determines the annual maximum. If you anticipate high medical expenses, or have a large family, you could easily spend all the funds in your HSA every year.

To learn more about HRAs and HSAs, please contact us. ■

## GIVING—continued from Page 1

policy premiums, you can receive a charitable deduction for these amounts.

**3 Donate a life insurance policy to the charity.** The simplest and most straightforward way to use life insurance in charitable giving is to donate a policy to the charity. Let's say you bought a permanent life policy years ago when your children were young. Your children are grown and independent and the policy has built some cash value. You can donate the policy to the charity of your choice, which can then either tap into the cash value as either a policy withdrawal or loan, or it can wait to obtain the full death benefit.

**Tax consequences:** You might be able to deduct either the premiums you paid or the replacement value of the policy, whichever is less, from your income taxes as a charitable donation. However, some states do not consider a nonprofit to have an insurable interest on a donor's life. Consult a tax professional for more information.

**4 Make the charity of your choice the beneficiary of any of your tax-qualified accounts, such as pensions, 401(k)s and IRAs.** If your heirs inherit these accounts, they will have to pay income taxes on any funds withdrawn from the account — and if your total estate is large enough, the estate might have to pay estate taxes, reducing the usable balances even more. But a qualified nonprofit organization can avoid estate and income taxes. To make up the difference in what your family members would have otherwise inherited, you can purchase a life insurance policy, naming them as beneficiaries. They will receive the policy's death benefit outside the estate, and not subject to income taxation.

**Tax consequences:** No immediate tax benefits to you, but this method can prevent taxes from eating up assets your heirs receive.

For more information on life insurance and its many uses, please contact us. For more information on the tax consequences of any form of charitable giving, including with life insurance, please contact your tax advisor. ■



# Medicare Part D: Avoiding the “Donut Hole”

Our last issue (August 2008) covered Medicare Parts A, B and C. However, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) created another part, Part D, to make prescription drugs more affordable for the elderly and disabled. The next enrollment period takes place from November 15 to December 31, 2008. If you'll be eligible, here's some information you need to know.



**M**edicare prescription drug coverage is insurance that covers both brand-name and generic prescription drugs at participating pharmacies. Private insurers provide Part D coverage, either through stand-alone prescription drug plans (PDPs) or Medicare Advantage (MA) plans, which are managed care plans that provide comprehensive benefits.

Medicare Part D provides protection for people who have very high drug costs or who may have unexpected prescription drug bills in the future. With a Medicare prescription drug plan:

- ★ Generally, you pay less for your prescriptions.

- ★ You will get a plan member card after you enroll. You use this card when you go to the pharmacy to get your prescriptions filled.
- ★ You will pay the copayment, coinsurance, and/or deductible, if any.

Everyone with Medicare can obtain Part D coverage; if you currently have a plan that does not include prescription drug coverage, you can add it during one of the enrollment periods. Eligible individuals who want to participate in Medicare Part D will choose among competing drug plans and pay the monthly premium. Premiums average about \$37 dollars per month, but costs vary widely — from \$8.40 to \$135.70 — depending on where you live in and the plan you select.

You may have heard about the Part D coverage gap, or “doughnut hole.” The doughnut hole occurs when your covered drug expenses reach the initial coverage limit (\$2,700 for 2009). At that point, Medicare stops paying for your prescriptions until you reach the out-of-pocket threshold (\$4,350 in 2009).

Some misconceptions about the doughnut hole exist. First, the initial coverage limit represents total covered drug costs — including amounts the drug plan pays. For example, if your prescription costs \$100 but you only pay a \$20 copayment, the full \$100 counts toward the initial coverage limit.

However, when calculating your out-of-pocket expenses, the actual costs of your

*PART D—continued on Page 3*

## Medicare Part D plans will pay benefits as follows:

Part D Defined Standard Benefit	2008	2009
<b>Deductible.</b> No plan may have a higher deductible than this.	<b>\$275</b>	<b>\$295</b>
<b>Initial Coverage Limit.</b> Once your covered prescription drug costs reach this amount, you will pay 100 percent of your prescription costs until you reach the out-of-pocket threshold (below). This is called the coverage gap, or “the doughnut hole.”	<b>\$2,510</b>	<b>\$2,700</b>
<b>Out-of-Pocket Threshold.</b> After your covered prescription drug costs exceed this amount, you have entered the catastrophic coverage portion of the plan, which generally pays 95 percent of prescription costs.	<b>\$4,050</b>	<b>\$4,350</b>

Source: Centers for Medicare & Medicaid Services, U.S. Department of Health and Human Services