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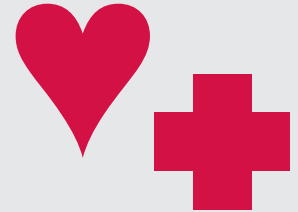


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Medicare Advantage

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## Is Your Medicare Advantage Plan Right for You?

Medicare-eligible individuals can join, switch or drop a Medicare Advantage plan between November 15 and December 31 each year. If you have Medicare Advantage or traditional Medicare, now's a good time to look at your existing coverage and how it's meeting your needs.



**A**s of March 2010, a record 11.1 million people — nearly one in four of all Medicare beneficiaries — were enrolled in Medicare Advantage plans, up from 10.5 million in March 2009.

Medicare Advantage plans, sometimes called “Part C” or “MA Plans,” are health plans offered by private companies approved by and under contract with Medicare.

MA plans offer individuals an alternative to Original Medicare: if you join a Medicare Advantage plan, the plan provides all your Part A (hospital insurance) and Part B (medical insurance) coverage. MA plans must cover all the services that Original Medicare covers, including urgent and emergency care, except hospice care. (Original Medicare covers hospice care even if you're in a Medicare Advantage plan.)

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## This Just In...

**B**aby boomers fear outliving their savings more than death, found an insurer's survey. In a Allianz' study of boomers' preparation for retirement, Reclaiming the Future, 61 percent of respondents said they feared outliving their savings more than death. Among respondents ages 44 to 49, the percentage climbed to 77 percent, and to 82 percent among those in their late 40s with dependents.

The market downturn that began in 2008 gave baby boomers a big wake-up call. Approximately half cut back on daily expenses and special expenses, such as dining and entertainment. More significantly, more than half came to realize that “a comfortable retirement is not guaranteed.”

As a result, boomers have become more risk-averse with their money, with most agreeing that, “the safety of my money matters more to

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These plans may also offer extra benefits not available under Original Medicare, such as vision, hearing, dental and/or health and wellness programs. Most plans also include Medicare prescription drug coverage.

MA plans must follow rules set by Medicare. However, plans and out-of-pocket costs can vary from plan to plan. If you want drug coverage, you must get it through your MA plan (in most cases), and you may pay extra.

Plans may also have different rules for how you get services, such as whether you need a primary doctor's referral to see a specialist or if your plan only covers services from in-network providers—including doctors, hospitals and pharmacies.

### Different Types of Medicare Advantage Plans

While Original Medicare is a “one-size fits all” traditional fee-for-service plan, you can find alternative plan designs under Medicare Advantage. These include:

- ✱ Health maintenance organization (HMO) plans
- ✱ Preferred provider organization (PPO) plans
- ✱ Private fee-for-service (PFFS) plans
- ✱ Medical savings account (MSA) plans
- ✱ Special needs plans, or plans for individuals dually eligible for Medicare and Medicaid, those in long-term care facilities, and those with certain chronic conditions.

Many MA plans cover services intended to help you stay healthy. Although the Affordable Care Act health reform legislation eliminated out-of-pocket costs for many preventive services starting in 2011 for Original Medicare, almost all beneficiaries will have access to an MA plan that also provides preventive services with no cost-sharing as well.

### More about Medicare Advantage Plans

- ✱ As with Original Medicare, you still have Medicare rights and protections, including the right to appeal.
- ✱ Check with your plan before you get a service to find out whether it will cover the service and what your costs may be.
- ✱ You must follow plan rules, such as getting a referral to see a specialist or getting prior approval for certain procedures to avoid higher costs. Check with the plan.
- ✱ You can join a Medicare Advantage plan even if you have a pre-existing condition, except for end-stage renal disease.
- ✱ You can only join a plan at certain times during the year. In most cases, you're enrolled in a plan for a year.
- ✱ If you go to a doctor, facility, or supplier that doesn't belong to the plan, your services may not be covered, or your costs could be higher, depending on the type of Medicare Advantage plan.
- ✱ If the plan decides to stop participating in Medicare, you'll have to join another Medicare health plan or return to Original Medicare.

### It Pays to Shop Around

A 2007 survey by the Association of American Health Insurance Plans (AAHIP) found that 90 percent of Medicare Advantage plan members were satisfied with their coverage. In the past, Medicare Advantage members saved more than \$1,000 per year in out-of-pocket expenses, versus what they would have paid with Original Medicare.

In most areas, you can select from a variety of Medicare Advantage plans, all with different benefits and costs. In particular, those who take many prescription drugs will want to compare drug benefits, costs and drug plan formularies.

MA beneficiaries usually pay one monthly premium to the Medicare Advantage plan. This may equal the Original Medicare Part B premium or may be more, depending on your geographic area and the plan you select. If you're enrolled in a Medicare Advantage Plan, you don't need and can't use a Medigap policy.

We can help you compare — for more information, please call us. ■

#### This Just In

**me than it did a few years ago.” More than two-thirds (69 percent) also said they would prefer a product “guaranteed not to lose value” over a product whose goal was “providing a high return.”**

**These trends have led to greater interest in annuities, which provide stable, predictable retirement income and are guaranteed not to lose value. For more information on annuities, please contact us.**

# Annuity Basics

In 2009, Americans spent a total of \$234.9 billion on individual annuities, making annuities the largest portion of the life/health insurance product line, when measured in annual premiums. Despite their importance, however, annuities remain little understood by the average American.

## What Is an Annuity?

As with life insurance, when you buy an annuity you enter into a contract with an insurance company. Unlike life insurance, which protects the insured's family by replacing "lost" income if he or she dies prematurely, annuities provide the insured (or *annuitant*) with income during retirement.

Under an annuity contract, you agree to pay the insurer a lump-sum premium or series of premium payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date. Annuities typically offer tax-deferred growth of earnings and may include a death benefit that will pay your beneficiary a guaranteed minimum amount, such as your total purchase payments.

There are generally two types of annuities — **fixed** and **variable**. In a **fixed annuity**, the insurance company guarantees that you will earn a minimum rate of interest during the time that your account is growing, called the



“accumulation phase.” During the accumulation phase, your investment grows untaxed.

The insurance company also guarantees to make periodic (usually monthly) payments of a specified amount during the “annuitization phase.” These payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse.

In a **variable annuity**, by contrast, you can choose to invest your purchase payments in a range of different investment options, typically mutual funds. The rate of return on your purchase payments, and the amount of the periodic payments you will eventually receive, will vary depending on the performance of the investment options you have selected.

An **equity-indexed annuity** is a special type of annuity. During the accumulation

period — when you make either a lump sum payment or a series of payments — the insurance company credits you with a return based on changes in an equity index, such as the S&P 500 Composite Stock Price Index. The insurance company typically guarantees a minimum return, which can vary. After the accumulation period, the insurance company will make periodic payments to you under the terms of your contract, unless you choose to receive your contract value in a lump sum.

## Who Regulates Annuities and Annuity Sales?

As with other life insurance products, state insurance departments regulate the sale of annuities. Any individual who sells fixed annuities must have a life insurance sales license.

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# The Current State of the Individual Health Insurance Market

Some 14 million nonelderly people buy health insurance coverage on the individual market because they either do not have access to or do not qualify for a group plan. Forty-five percent are either business owners or self-employed. Another 16 percent work for an employer that doesn't offer insurance. The others either can't afford their employer's coverage, don't qualify for it or are not working (between jobs, students or early retirees). If you fall into one of these categories, what can you expect from the individual health insurance market in the near term?



**T**he Kaiser Family Foundation recently released a survey of people who purchase their own insurance. It found that individual health insurance cost on average much less than coverage in the group (employer) market, with average annual premiums of \$3,606 for single coverage and \$7,102 for family coverage. This compares to average annual premiums for employer group plans of \$5,049 for single coverage and \$13,770 for family coverage.

Despite lower premiums, those with individual coverage are likely paying more for their healthcare—even when you exclude employer's contributions to premiums. Policies in the individual market usually have higher annual deductibles, averaging \$2,498 for single coverage and \$5,149 for plans with a family deductible. Actual deductibles vary greatly—more than a quarter of respondents to the Kaiser poll said they had a deductible

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of \$5,000 or more, and 6 percent said they had a deductible of \$10,000 or more. Those covered by employer group plans have much smaller deductibles in general: ranging from a low of \$998 for employees of small firms with an HMO plan, to a high of \$2,216 for employees of small firms with a high-deductible health plan (HDHP).

Variable annuities, as insurance products, also fall under state insurance department regulation. They are also considered securities, which are regulated by the U.S. Securities and Exchange Commission, or SEC. An individual selling variable annuities must have both a life insurance sales license and a securities sales license. Look for an agent with either the Series 6 license (Investment Company Products/Variable Contracts Limited Representative) or the more comprehensive Series 7 license.

Equity-indexed annuities combine features of traditional insurance products (guaranteed minimum return) and traditional securities (return linked to equity markets). Depending on the mix of features, an equity-indexed annuity may or may not be a security. The typical equity-indexed annuity is not registered with the SEC.

An independent agent represents many companies and can help you find the annuity or annuities that best meet your individual investment needs and goals. To learn more about annuities and their role in retirement planning, please contact us. ■

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In general, people with individual health insurance also report higher out-of-pocket costs than those with employer-provided healthcare, even when excluding employer premium payments. This is generally because employer groups, particularly large groups, have more negotiating power than individuals do.

The Patient Protection and Affordable Care Act (PPACA) has taken some steps that will make individual health insurance a bit more affordable and accessible. The following changes take place beginning September 23, 2010:

- ✱ Insurers cannot rescind coverage when you get sick because you made a mistake on your coverage application. Rescission not only leaves the former enrollee with-

out health coverage, but it also treats that person as if he or she were never enrolled in the rescinded plan. Consequently, the former enrollee would be responsible for all health expenses incurred when he or she was previously covered.

- ✱ Children can remain on your policy until age 26 if it allows for dependent coverage. The only exception is if children can get their own job-based coverage.
- ✱ Prohibitions against lifetime limits for “essential health benefits” go into effect, meaning insurers will no longer be able to cap limits for essential health benefits. They may still cap benefits considered non-essential.
- ✱ New individual plans (created after March 23, 2010) won't be allowed to

deny or exclude coverage to any child under age 19 based on health conditions, including babies born with health problems.

- ✱ New individual health insurance policies must offer certain preventive services with no copayment, co-insurance or deductible. Eligible preventive health services include check-ups, recommended screenings (which vary by age and gender) and vaccinations. This would lessen your out-of-pocket costs if your plan qualifies; this change takes place on the first policy year on or after September 23, 2010. It does not affect individual health plans in existence on or before March 23.



## Health Reform and Medicare Advantage

**Y**ou may have heard that the Patient Protection and Affordable Care Act (PPACA) could affect MA coverage. How will this work?

Every year, MA plans submit a bid, or estimate of how much it will cost to cover their members to the federal Medicare office. Medicare reimburses MA plans up to a benchmark, or maximum, per enrollee, which varies by county. When a plan's bid exceeds the benchmark, plan enrollees pay the difference as a premium over the Medicare Part B premium. If a plan's bid is lower than the benchmark, members pay only the Medicare Part B premium and the plan keeps 75 percent of the difference. MA plans are supposed to use this money to lower members' costs or provide extra services.

Since the program's start, however, MA plan subsidies have averaged 9 to 12 percent more than what it costs Original Medicare to cover beneficiaries in the same community. These overpayments cost taxpayers about \$15 billion every year. The PPACA will gradually reduce benchmarks to bring MA payments closer to the costs of Original Medicare.

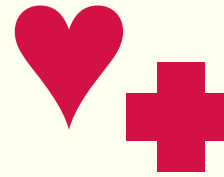
In 2011, benchmarks will remain unchanged from 2010, so most MA plan members are unlikely to see significant plan changes or premium increases. In fact, the Center for Medicare/Medicaid services has announced that average MA premiums for 2011 will actually decrease one percent.

Starting in 2012, benchmarks will begin dropping, until reimbursements approach the costs

of insuring Original Medicare members in each county. Although some insurers may cut benefits or drop out of the market altogether, experts expect larger insurers to remain in the market. The PPACA makes other changes. It requires MA plans to spend at least 85 percent of Medicare reimbursements on benefits. It also implements a rating system, where plans earning higher quality ratings will be able to receive bonuses and keep a larger percentage of the difference if their bid falls under the local benchmark. Seniors should also note that all MA plans must provide at least the basic Medicare benefits, and MA members retain the same rights as Original Medicare members.

For more information, please contact us. ■

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