LIFE, ANNUITIES & LONG-TERM CARE
SHOPPER'S GUIDE

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LIFE INSURANCE

Do you need life insurance?

Your need for life insurance will vary with your age and your stage of life. The need is usually the greatest when there are young children in your family, your family has only one income or there is not enough money saved to support the surviving family members for a significant length of time.

Life insurance proceeds could mean your dependents will not have to sell their own assets to pay for your outstanding bills or taxes. An important feature of life insurance is that beneficiaries do not pay income tax on life insurance proceeds.

The primary purpose of life insurance is financial protection for your family. If your primary goal is something other than financial protection, you should consider alternative financial products.

Factors to consider

There are multiple factors to consider when determining how much life insurance you should have. The priority should be any immediate needs at the time of death, such as final illness expenses, burial costs, and estate taxes. In addition to immediate needs it is advisable to consider any ongoing financial needs, such as monthly bills and expenses, day care costs, and college tuition or retirement. Lastly, it is advisable to consider funds for a readjustment period, to finance a move or to provide time for remaining family members to find a job. Carefully evaluate the amount of coverage you and your family need.

TYPES OF LIFE INSURANCE

Life insurance policies pay a benefit upon death, however, not all policies are the same. Selecting the right type of policy for you is about finding the balance between your goals and your budget.

Term life insurance — Provides coverage for a set period. Benefits will be paid upon death during that period. Some term life insurance polices can be renewed at the end of the term, but premium rates usually increase with age at each renewal.

Whole life insurance — Also referred to as “straight life,” “ordinary life,” or “permanent insurance,” gives lifelong protection if premiums are paid. Whole life plans have level premiums – meaning the premiums do not increase as you age. These policies are designed and priced for you to keep over a long period of time. Whole life insurance policies develop a cash value. The cash value is one of the guaranteed provisions of your policy.

Universal life — A variation of whole life insurance that allows you, after your initial payment, to pay premiums at any time in virtually any amount, subject to certain minimums and maximums. You also can reduce or increase the amount of the death benefit more easily than under a traditional whole life policy.

Universal life may be a good fit for those who prefer to purchase term life insurance at a lower premium cost and invest the difference. With a universal life insurance policy, the amount of premium not used to purchase the death benefit or pay policy expense charges accumulates as interest in a cash value-type account. The interest rate paid on this money may vary with the market. Unlike a regular whole life insurance policy, surrender penalties for early withdrawal are common on this type of policy.

Indexed universal life insurance — A form of permanent life insurance that offers the ability to accumulate cash value based on premium payments earning interest at a declared rate. What distinguishes indexed universal life is that it offers the additional option of earning interest using a formula based on changes in a market index to which the policy is linked, such as the S&P 500 or the NASDAQ 100. Indexed universal life often caps the maximum return while also providing a guaranteed minimum interest rate. You do not purchase shares of any stock or index when you purchase an indexed universal life policy.

Variable life insurance — A variation of whole life insurance that provides death benefits and cash value that varies with the performance of an underlying portfolio of investments. You can choose to allocate your premiums among a variety of investments that offer varying degrees of expected risk and reward. You will receive a prospectus in conjunction with the sale of a variable product. The cash value of a variable life policy is not guaranteed, and the policyholder bears the risk.

POLICY PROVISIONS

Incontestability provision

This provision sets a time limit of two years during which the company has the right to void the contract for material misstatements made in the application. However, the policy may be canceled at any time in the case of fraud.

Misstatement of age provision

If an insured dies and the company discovers that the insured's age in the original application was incorrect, the company pays an amount equal to the amount of insurance the premium would have purchased at the correct age. The amount paid could be more or less than the face amount, depending on whether the insured's age was overstated or understated.

Suicide provision

Companies are permitted to include a suicide provision in their policies. Generally, if the insured dies by suicide during the first two years, the death benefit will be limited to the total premiums paid. After the first two years, the full death benefit is payable in the event of suicide.

Settlement option

At the death of the insured individual, the policy proceeds may be: Paid to your beneficiary in a lump sum; Be kept with the insurance company to earn interest; Be paid out in installments in the form of an annuity payment. Your policy will have a table showing the various options available to you and your beneficiary. You may select an option on behalf of your beneficiary, or you may wish to let your beneficiary decide at the time of your death. You should discuss this matter with your agent or company when your policy is issued.

Free-look provision

You have a minimum 10-day "free look" or "right to return" provision on your policy. If you decide within 10 days of the policy being delivered to you that you do not want it, the company is required by state law to return all of the premiums you have paid (unless you have purchased a variable policy, in which case the refund amount is based on the performance of the investments you have chosen). You may return the policy to either your agent or the company to receive your refund.

Cash surrender value

Cash surrender value is the amount available when you cancel or "surrender" a whole life policy. In many cases, whole life policies begin to accumulate cash value at the end of the second or third policy year. This means there may be little or no cash value if you surrender your policy in the early years.

The cash value for a whole life, universal or variable life policy comes from the excess premium paid in the policy's early years. The company invests the excess to provide the basis for the equity or cash value in your policy.

These policies have tables that show the amount of guaranteed cash value. If you have a universal life policy, the insurance company must furnish an annual report that includes the cash surrender value and other pertinent policy information.

Before you surrender your policy for cash, carefully consider the loss of valuable insurance protection you may not be able to get later. Alternatives are available when you need cash or cannot make payments — for example, a policy loan or one of the nonforfeiture options described below.

Nonforfeiture options

If you decide to cancel your policy, you may select one of these nonforfeiture benefits instead of receiving cash:

- **Reduced paid-up life** – provides you with a fully paid-up life insurance policy for a smaller amount than the original policy. The cash value in the policy is used as a net single premium to purchase paid-up insurance of the same type as the original policy. This option is useful if you wish to discontinue premium payments (such as at retirement age) and a smaller amount of insurance is satisfactory.

- **Extended term insurance** – this nonforfeiture option provides that you may use the cash value of your policy to purchase term insurance equal to the face amount of the policy. The length of time the term insurance remains in force will depend on the amount of cash value, as well as other factors, such as the sex of the insured and attained age of the insured at the time the policyowner elects the extended term option.

In either of these options, you are applying the cash value of your policy. By law, the value of the life insurance under these options is equal to the cash value at the time the option goes into effect. If either nonforfeiture option goes into effect, all rider coverage and premiums cease. If your premium has not been paid by the end of the grace period, one of these two options will automatically go into effect. To reinstate your policy on a premium-paying basis, you may have to show evidence of good health (insurability), as well as pay any unpaid premium plus interest.

Dividends

Participating policies may pay the policyowner a dividend that represents a return of premium based on the company’s claims, investment, and administrative experience. You may select one of several ways to receive your dividends. Dividends are distributed annually, and you may want to review your dividend option from time to time to be sure your dividend dollar is being used to your best advantage. The options:

- **Cash payment** – The dividend is paid directly to you each year in cash.

- **Premium deduction** – The dividend is used to pay part of your premium instead of being paid directly to you. You will receive a notice from the company showing the amount of the dividend and how much premium you have left to pay.

- **Interest option (left on deposit)** – You may leave your dividends with the company to earn interest. All or any part of the total amount left on deposit may be withdrawn by you at any time. However, interest may be taxable.

- **Dividend addition** – You may use the dividend to purchase additional life insurance on a paid-up basis on the same plan as your regular policy. This is one way to buy additional life insurance without having to provide evidence of insurability.
- **One-year term option** – You may use the dividend to buy one-year term insurance. Substantial additional insurance can be purchased at term rates, but like all term insurance, the coverage is temporary and gets more expensive as you age. Any unused portion of the dividend may be left on deposit with the company to earn interest.

Failure to pay premium

Grace Period – You have a grace period of at least 30 days after the due date of any premium, meaning your policy will remain in force during that period. If you pay your premium within this period, the protection continues.

Automatic premium loan – Some companies offer you the option of automatically paying any overdue premium through an automatic premium loan. It is a policy loan. The advantage of an automatic premium loan is that the policy and riders are kept in force as long as there is sufficient cash value, even though you fail to pay the premium. If you continue to pay premiums by this method, you risk having your policy lapse when the cash value is used up. It is important to note the proceeds payable upon surrender or death of the insured will be reduced by the amount of any outstanding loan balance.

POLICY RIDERS

Waiver of premium rider — Provides that your policy will stay in force if you become totally disabled. Premiums are waived if your disability continues, and the policy benefits continue just as if you had paid the premiums. You are responsible for notifying the company if you become disabled.

Accidental death benefit rider — Pays extra benefit if you should die accidentally. Sometimes referred to as double or triple indemnity, the benefit will be one or two times the face amount of the policy and will pay in addition to the basic benefit.

Guaranteed insurability rider — Guarantees you will be able to purchase additional life insurance in the future regardless of your health. The policy designates certain times when you will be allowed to add more coverage and not have to answer any questions about your health. The cost for the new policy is based on your current age.

Level-term rider — Offers temporary coverage that may be attached to a whole life, universal or variable life policy to provide extra insurance protection for a specific length of time. It may cover the same individual as the base policy or it may provide coverage for an additional insured, such as a spouse or child.

Long-term care rider — Issued in conjunction with a life insurance policy to help pay expenses if you must reside at a long-term care facility. The benefit for long-term care is usually limited to 50 percent or less of the total face amount of the policy. For more comprehensive long-term care coverage, consider a long-term care insurance policy.

Accelerated benefit rider — Also known as “living benefits,” is payable before death. This benefit allows the policy to pay you all or a portion of your benefit for such things as diagnosis of a terminal illness or if you will be permanently confined to a nursing home. These events, referred to in the policy as “qualifying conditions,” vary by company. Any benefit paid out before death will reduce the benefit paid to beneficiaries after death. Review the rider to determine what coverage is available.

PROTECTING YOUR BENEFICIARIES

- Naming a beneficiary will avoid the probate process and will likely have tax advantages to the named beneficiary. You can name as many beneficiaries as you would like and may specify how the benefits are divided. It's a good idea to name a contingent beneficiary to receive the death benefit in case your primary beneficiary dies before or at the same time as you.

  If you die without naming a beneficiary, the death benefit will be paid to your estate and then paid out according to your will and/or state law. This delays the payment and could create a financial hardship for your beneficiary.

- Keep your policy in a safe place. However, do not use any place where the policy might not be readily available. Let your beneficiary know the kind of insurance policy you have, any changes you make, and where you keep the policy.

- A change in beneficiary may be made after the policy is taken out, unless you have named an irrevocable beneficiary. An irrevocable beneficiary arrangement can only be changed with the beneficiary's consent.

- As a general rule, your beneficiary does not have to pay any federal income taxes on the proceeds of your policy. However, if proceeds of a policy are paid to the deceased person's estate and the total estate exceeds a statutory maximum, including life insurance, there will be federal estate taxes payable. You should always discuss tax matters with your lawyer or accountant.

- Your beneficiary will need to notify the life insurance company of your death, which is why it is important for your beneficiary to be able to locate your policy. Companies require a certified death certificate or other legal proof of death and may ask for the policy. The life insurance company will pay the proceeds of the policy to your beneficiary after receiving proper notification of death.

APPLYING FOR LIFE INSURANCE

Now that you are aware of the basics of life insurance, the next steps are to choose a company, decide whether you want to work with an agent and to complete the application.

Completing the application

When you have chosen the policy and amount of insurance you want, the agent or company will have you complete an application. The application consists of a questionnaire that asks for personal and medical information as well as the type of policy and amount of coverage you want. You will also name your beneficiary or beneficiaries on the application.

The company uses the information on the application as evidence of insurability. Based on this information, the company will determine whether it will issue a policy to you. A copy of the application is attached to the policy when issued and becomes a permanent part of the policy.

It is important that you answer all questions on the application as completely and truthfully as you can. A misstatement or omission could make the insurance invalid. If someone has helped you fill out the application, check it for accuracy before signing. Under no circumstances should you sign a blank or incomplete application.

Temporary coverage must be provided for individual life insurance policies when a company receives an application and initial premium payment. This coverage remains in effect until you have been notified in writing of an adverse underwriting decision and any unearned premium has been returned.

Underwriting (qualifying for coverage)

Your life insurance premium is based on the type of insurance you are purchasing and your mortality class. The type of insurance you purchase is your choice but your mortality class is determined by an underwriter using a process through which the company decides whether to accept a risk and in what mortality class the risk should be placed. This is one reason you may find that companies charge different premiums for similar policies.

Your mortality class is determined by such factors as age, sex, personal and family medical history, habits, residence, and occupation. A company's decision to offer a policy is based on the application, the medical examination (if required), inspection reports, statements from your physician, special questionnaires, and intercompany data. If the underwriter determines that you are in a substandard class (your risk of death is greater than normal), your policy will be "rated," which means the premium will cost more than the normal (standard) premium.

A substandard policy rating is one company's opinion. A different company, given the same information, may not rate you at all or may give you a lower rating. It is advisable to get more than one quote for life insurance.

If you are rated, you should be told the reason (such as a health condition or occupation). If at some point in the future the reason for the original rating improves, notify your agent and insurance company and request that they review the situation. Your rating may be reduced or eliminated entirely.

SELLING YOUR LIFE POLICY

It is possible for you to sell your life insurance policy to someone else and receive an immediate cash benefit to use for whatever reason you choose. This financial arrangement known as a viatical settlement.

Consumer protections in Kansas

Any agent or company arranging viatical settlements must be licensed with the Kansas Insurance Department. The company buying your policy must keep your identity and medical history confidential unless you give them written consent.

To protect your proceeds, the company buying your policy must put your money into an escrow account with an independent party during the transfer process. You have the right to change your mind about the settlement AFTER you receive the money, provided you return all the money. You have 15 days to review your settlement arrangement.

The new owner of your policy is limited to the number of times they may contact you about your current health status.

Make an informed decision

It may not always be in your best interest to sell your policy. Before you decide to sell your policy, you want to be sure you understand what future benefits you may lose and what other options may be available.

Before you sell your policy for cash, you should carefully consider the loss of valuable insurance protection which you may not be able to get again. Remember that the costs for coverage increase significantly as you age and that you also must be in good health to qualify for coverage.

Be sure to understand the tax implications of selling your life insurance policy as not all proceeds from a viatical settlement are tax free. Find out if you will lose any public assistance benefits such as food stamps, unemployment, or Medicaid if you accept a cash settlement for your life policy.

Check all of your options

Find out if you have any cash value in your policy. You may be able to borrow from the cash value, cancel the policy for its current cash value, or use the cash value as collateral to secure a loan from a financial institution.

Find out if you have an “accelerated benefit” rider on your policy. If available, it could pay you a substantial portion of your policy’s death benefit without requiring you to sell your policy. It may be your best option.

ANNUITIES

An annuity is a financial contract in which an insurance company makes a series of income payments to you at regular intervals in return for a premium or premiums that you have paid. Annuities are most often bought for future retirement income.

An annuity is neither a life insurance policy nor a health insurance policy. It is not a savings account or a savings certificate, and you should not buy an annuity to reach short-term financial goals.

Your value in an annuity contract is the amount in premiums you have paid, minus any applicable charges, plus any interest your premiums have earned.

How are premiums paid to an annuity?

Annuity premiums can be paid in either one payment for a single premium annuity or in a series of payments for a multiple premium annuity.

Multiple premium annuity payments can be made either on a regularly scheduled basis, or in flexible payments, allowing you to pay as much premium as you want within set limits.

When will I begin receiving payments from my annuity?

Receiving payments from your annuity depends on whether you have chosen an **immediate annuity** or a **deferred annuity**.

How will my annuity earn interest?

The method by which your annuity accrues interest depends on whether you choose a **fixed annuity** or a **variable annuity**.

How will my annuity income be paid to me?

Your annuity contract will outline how you are to receive income from your annuity during the payout period. There are four basic options: **life only, period certain, life with period certain, joint and last survivor**.

TYPES OF ANNUITIES: RECEIVING PAYMENTS

Receiving payment from your annuity depends on the type of annuity.

Immediate annuities

Immediate annuities can provide dependable financial security by providing a stream of income payments guaranteed to continue for the rest of your life or for a period you select. If you are about to retire, an immediate annuity may be a good option for a large lump sum of money accumulated through a retirement plan.

To purchase an immediate annuity, you make a one-time payment, and distributions must begin within a year, but typically begin within a month. Immediate annuities can be fixed or variable.

The principal in an immediate annuity is not generally or readily accessible. If you need more money than the income provided by immediate annuity payments, you may want to consider other retirement options.

BENEFITS

- The income payments you receive can supplement other income sources, such as Social Security and pension payments.
- You choose how often to receive your income payments, whether monthly, quarterly, semi- annually, or annually.
- You pay income taxes only as you receive your payments. When you receive income payments, you will be taxed on the portion of the payment that is interest earned. The portion that is principal will not be taxed if the initial deposit for the immediate annuity was made with after-tax dollars.
- You may lessen your financial worries. Financial management can be a burden in your retirement years. Because you do not know how long you will live, it is hard to be sure your resources will last as long as you need them. If you withdraw too much of your nest egg, your future income can suffer or you may run out of money entirely. If you are too thrifty when it comes to spending your nest egg, your level of living may suffer. Immediate annuities can remove some of these burdens so you can concentrate better on enjoying your hard-earned retirement.

Deferred annuities

Deferred annuities can be a great way to accumulate money for retirement if you want retirement income beyond what you will receive from Social Security or your retirement plan from your employer.

A deferred annuity is not a vehicle for money you may need for current expenses. If you withdraw income before age 59½, the IRS will usually apply a 10 percent penalty in addition to ordinary income tax. Additionally, your insurer may impose their own early withdrawal penalty, known as a surrender charge. This surrender charge typically decreases over time and does not apply once your annuity has reached its contract terms.

When you are ready to start withdrawing money from your deferred annuity, you will need to choose how to receive your money. You can take it all out in a lump sum, take it as needed or receive it in a steady stream of periodic payments, called "annuitizing." If you annuitize, you can receive a stream of income that is guaranteed to continue for the rest of your life, no matter how long you live, and the tax liability can be spread out for the rest of your life, too.

Some annuities provide an option called "systematic withdrawal" to have a set amount, determined by you, automatically withdrawn, and deposited in your bank account on a regular schedule. You have many options and should consult a tax or financial adviser to tailor a plan to your needs.

BENEFITS

- Reasons to consider a deferred annuity include:
- You postpone paying income taxes on any earnings until you withdraw money, typically during retirement, when you may be in a lower tax bracket. All earnings grow tax-deferred.
- You can put in as much money as you want. Unlike Individual Retirement Accounts (IRAs), there is no IRS restriction on the amount that can be contributed annually to a non-qualified deferred annuity with your after-tax money. You can, however, use a deferred annuity to fund your traditional or Roth IRA, in which case you would operate within IRA limitations.
- You can provide death benefits to your beneficiaries. If you die prematurely, your annuity can offer a death benefit to your beneficiaries without the costs and delays of probate.

TYPES OF ANNUITIES: RECEIVED INTEREST

The method by which your annuity accrues interests depends on the type of annuity.

Fixed annuities

During the accumulation period of a fixed annuity, your money (less any applicable charges) earns interest at rates set by the insurance company or in a way spelled out in the annuity contract. The company guarantees that it will pay no less than a minimum rate of interest. During the payout period, the amount of each income payment to you is generally set when the payments start and will not change.

Fixed annuities earn this guaranteed rate of interest for a specific period. Once the guarantee period is over, a new interest rate is set for the next period. This guarantee of both interest and principal makes fixed annuities resemble certificates of deposit (CDs) from a bank. Unlike a typical CD, however, an annuity is not insured by the Federal Deposit Insurance Corporation (FDIC); its security is directly related to the financial health of the insurance company that issues the annuity.

INDEXED ANNUITIES

An indexed annuity is a type of fixed annuity that earns interest or provides benefits that are linked to an external equity reference, such as a stock index. One commonly used index is the S & P 500 Composite Stock Price Index. The value of any index varies from day-to-day and is not predictable.

When you buy an indexed annuity, you own an annuity contract, not shares of any stock or index.

An indexed annuity is different from other fixed annuities because of the way it credits interest to your annuity's value. Some fixed annuities only credit interest calculated at a rate set in the contract.

Indexed annuities credit interest using a formula based on changes in the index to which the annuity is linked. The formula decides how the additional interest, if any, is calculated and credited. How much additional interest you get and when you get it depends on the features of your annuity.

Like other fixed annuities, your indexed annuity also promises to pay a minimum interest rate. The rate that will be applied will not be less than this minimum guaranteed rate even if the index-linked interest rate is lower. The value of your annuity also will not drop below a guaranteed minimum. Indexed annuities provide a potentially greater return than traditional fixed annuities. This results in a product with less growth potential than variable annuities, but also with less downside risk.

Variable annuities

During the accumulation period of a variable annuity, the insurance company puts your premiums (less any applicable charges) into a separate account. You decide how the company will invest those premiums, depending on how much risk you want to take. Variable annuities typically offer a range of investment or funding options, including stocks, bonds, and money market instruments. The return on variable annuities can increase, decrease, or even lose money.

With a variable annuity, your principal, and the return you earn are not guaranteed - they depend on the performance of the underlying investment options. If the investment options you choose for your annuity perform well, they may exceed the inflation rate or fixed annuity returns. If they do not, you may lose not only prior earnings but also some of your principal.

Some variable annuities offer a fixed account option that guarantees both principal and interest, much like a fixed annuity. This gives you the option of dividing your money among the low-risk fixed option and higher-risk options, such as stocks, all under the umbrella of just one annuity.

TYPES OF ANNUITIES: INCOME DURATION

Your annuity contract will outline how you are to receive income from your annuity during the payout period.

LIFE ONLY

Pays income for your lifetime and does not make any payments to anyone after you die. While this option usually pays the highest income possible among all annuity options, you risk the possibility of receiving less than your principal if you die prior to receiving payments totaling the amount you paid for the annuity.

PERIOD CERTAIN

Pays income for a defined period, usually 10 or 20 years. Should you die prior to expiration of the period certain, your beneficiary will receive the remaining payments.

LIFE WITH PERIOD CERTAIN

Pays income for as long as you live and guarantees to make payments for a defined number of years. If you live longer than the period certain, you will continue to receive payments until you die. If you die during the period certain, your beneficiary will receive the remaining payments for the period certain. If you die after the period certain has ended, your beneficiary will not receive any payments.

JOINT AND LAST SURVIVOR

Offers income guaranteed for the rest of your life and the life of another person. Joint and last survivor coverage is also known as "lifetime income for two," which guarantees that income payments will continue for the life of the primary owner and a second person. The guarantee is made by the insurance company issuing the annuity.

There are many other options which can be explained to you by a financial adviser or insurance agent. These options can usually be mixed and matched to provide an ideal income plan for your needs.

ANNUITY TAX CONSIDERATIONS

Annuity earnings are taxed as ordinary income. If your ordinary income tax rate at retirement is higher than the current capital gain tax rate, you might end up paying higher taxes on distributions from annuities than you might otherwise pay on selling investments subject only to taxable gains.

However, annuities offer a tax deferral on interest earnings, whereas other investments may be subject to annual taxation at ordinary income or capital gains tax rates even if you do not sell the investment. Annual taxation of such investments can reduce the value of your earnings over time compared to tax deferral.

Tax-deferred accumulation

Under current federal law, annuities receive special tax treatment. Income tax on annuities is deferred, meaning you are not taxed on the interest your money earns while it stays in the annuity.

Tax-deferred accumulation and tax-free accumulation are different. You pay taxes on earned income when it is paid to you. Deferring taxes until retirement may result in a lower tax bracket. During accumulation, you earn interest on the amount you would have paid in taxes.

Annuity payments have two parts - a non-taxable return on premium and taxable interest. You may face a tax penalty of 10% if you withdraw before 59 and a half years of age. The Internal Revenue Code also has rules about distributions after a contract holder's death.

Annuities used to fund certain employee pension benefit plans (those under Internal Revenue Code Sections 401(a), 401(k), 403(b), 457 or 414) defer taxes on plan contributions as well as on interest or investment income. Within the limits set by the law, you can use pretax dollars to make payments to the annuity. When you take money out, it will be taxed.

You can also use annuities to fund traditional and Roth IRAs under the Internal Revenue Code. If you buy an annuity to fund an IRA, you will receive a disclosure statement describing the tax treatment.

After-tax contributions

The money contributed to an annuity may be with after-tax dollars. When you contribute after-tax savings to an annuity, you can put as much money in as you like. However, there may be restrictions on the amount you may contribute with after-tax dollars if your annuity is a Roth IRA. Before you put after-tax dollars into an annuity, it may be advisable for you to put the maximum pre-tax amount into a retirement plan such as your IRA, SEP, 401(k) or 403(b).

Deferred annuities

When withdrawing funds from a deferred annuity plan, tax liability can be spread throughout a lifetime. In each payment, part of the earnings will be taxable, while the remaining interest earnings accumulate on the principal. Periodic payments after retirement may reduce your income tax liability if you are in a lower tax bracket.

If the tax-deferred aspect of a deferred annuity is important to you, make sure the expenses do not outweigh the tax benefits. You should consult a tax adviser for assistance in making this determination.

Variable annuities

Variable annuities purchased with after-tax dollars allow you to transfer money from one account to another without triggering a taxable event. In other words, if you transfer money to a different funding option within your variable annuity, you will not have to pay taxes on any earnings you have made. This reallocation of your money allows you to adapt to changing market conditions, or to adjust your investment goals because of life events, tax-free, without worrying about reporting and taxing.

Tax-free exchanges

You can switch from one annuity to another without paying taxes on the gain in your existing annuity, even if the new annuity is issued by a different insurance company. This type of exchange is called a "1035 Exchange," named after the section of the Internal Revenue Code that outlines the procedure. To make the exchange, you must surrender your current annuity and obtain a new one.

Though you will not be taxed on your earnings when you complete a 1035 Exchange, your existing annuity may still be subject to surrender penalties or withdrawal charges. It is critical that before beginning the process you fully understand the surrender penalty or withdrawal charges your insurance company will charge for surrendering your annuity. Be sure to consult your policy and to discuss this with your financial adviser before deciding whether you wish to complete a 1035 Exchange. If an insurance agent advises you to exchange annuities even though you will be penalized, make sure you know why they are encouraging you to change products.

Tax-Sheltered Annuities (TSAs)

Teachers, school personnel, doctors, nurses, hospital employees and members of nonprofit organizations may be eligible for tax-sheltered annuities (TSAs).

A TSA lets individuals and groups buy annuities through payroll deductions on a tax-deferred basis under section 403(b) of the Internal Revenue Code.

TSAs can be either fixed or variable and enjoy the same tax benefits as other annuities. Contributing pretax dollars to an annuity reduces the amount of taxable income an employee earns each year, and income tax is deferred until a later point in life.

TSA contributions are intended for retirement use. However, money can be withdrawn earlier in cases of financial hardship, disability, death, or the termination of employment. When it is withdrawn, the money can be taken out as one lump sum, partially withdrawn, rolled over to an IRA or other TSA account, or annuitized.

Like other annuities, TSAs may be subject to transaction charges and/or maintenance fees, both during the accumulation period and during the payout period. Be sure you read and understand the fine print before beginning payment to any annuity.

OTHER ANNUITY CONSIDERATIONS

Fixed and variable annuity expenses

Variable annuities usually have more features and higher fees than fixed annuities. With traditional fixed annuities, most contract expenses - such as maintenance and contract fees - are taken into consideration when the company declares periodic interest rates or determines the payment amount. Indexed annuities, however, may have higher fees than more traditional fixed annuities.

Variable annuity fees are more complicated. They may include an annual contract charge that covers administrative expenses, a mortality and expense risk charges. In addition, a variable annuity has fees for the management and operating expenses of the funding options in which your money is invested.

For a variable annuity, all important information will be explained in the prospectus that describes the variable annuity contract. The prospectus must be given to you when you are considering the purchase of a contract with after-tax dollars. Read it carefully before you invest or send money and be sure you understand exactly what the expense charges and fees will be. For all annuities, surrender charges may also apply.

Questions to ask before signing

If you have decided that an annuity is a good fit for you, here are questions to consider before signing any paperwork:

- **Have you done comparison shopping and considered all your options?** Annuities are long-term savings vehicles, and they offer a wide range of choices, prices, features and flexibility. Make sure your plan will work for you in the long run.

- **Does the rate on a fixed annuity look too good to be true?** You want a competitive interest rate at renewal time. If the company is offering bonus rates (a higher interest rate for a set period), make sure the underlying interest rate without the bonus is financially attractive. Be sure to consider any additional contract costs or early surrender fees. Once the bonus rate term expires, there is no guarantee going forward that renewal rates will be competitive. Be especially careful if you are exchanging annuities.

- **What are the annuity's surrender fees and how long are they in place?** If the surrender fee is high (typical fees are around six to seven percent and decline over a period of approximately five to seven years), you could feel locked into a contract from which it will be costly to escape.

- **What is the track record of the funding options offered in a variable annuity?** Do not be swayed by last month's top performer. Look for strong returns over a three- to five-year period or more. Newspapers such as Barron's and the Wall Street Journal publish rankings of various funding options on a regular basis. The history of various funding options also can be found in Morningstar and Lipper Analytical Services publications. Remember, past performance is not a guarantee of future results.

- **Does a variable annuity offer multiple funding options in case you change your investment strategy down the road?** Look for a range of funds to diversify your retirement savings as your needs change.

- **Will your ordinary income tax rate be greater than the current capital gains rate when you begin to take distributions?** If so, you may pay more in taxes by choosing annuities over another investment that would be taxed at the capital gains rate. Keep in mind, however, that your money in an annuity is accumulating on a tax-deferred basis. By selecting an annuity, you avoid paying yearly ordinary income tax on the earnings while your money compounds and grows.

- **I have been advised to cancel my existing annuity contract to purchase a new annuity. What should I know?** This is called replacement, and you should proceed carefully before surrendering or exchanging your existing annuity to purchase a new annuity. You may incur surrender charges for terminating your existing annuity, or your existing annuity may have options or features not available under the proposed contract. Do not replace an annuity contract without fully discussing the proposed change with both your current agent and current company.

LONG-TERM CARE INSURANCE

Long-term care insurance involves a variety of services designed to meet a person's health or personal care needs during a short or long period of time. These services help people live as independently and safely as possible when they can no longer perform everyday activities on their own. Long-term care is paid for in one the following ways: private pay, Medicaid, Medicare (limited), and long-term care insurance. The following information focuses on long-term care insurance.

Who should consider long-term care insurance?

Long-term care insurance may be a good fit if you are seeking financial stability and certain coverages in the event you become ill and require additional care beyond the benefits of health insurance. The purpose of long-term care insurance is to safeguard your nest egg for you and your spouse to cover typical expense. Long-term care insurance decreases your chances of needing Medicaid, provides more freedom of choice on the type of care you receive and can protect family members from having to pay for or provide care. Typically, between the ages of 50 and 60 is the optimal time to consider if long-term care insurance is worth purchasing.

Who should not consider long-term care insurance?

Long-term care insurance is not for everyone. It is likely long-term care insurance is not worth considering if social security is your only income source or if it is a challenge to afford the basic necessities like utilities, food, or medicine. Like many insurance products, you must consider the cost of coverage and your current and future needs.

Types of long-term care policies available?

Long-care term insurance policies are not standardized. Companies sell policies with many combinations of benefits and coverages. In Kansas, most policies are sold on an individual basis but other policies available through:

- an employer-sponsored group policy
- a membership in an association
- a life insurance policy
- an annuity

DESIGNING YOUR LONG-TERM CARE PLAN

To use your long-term care insurance benefits, you must meet the qualifications outlined in your policy. Most policies will require you meet certain criteria, called "benefit triggers," usually one of the following:

- Care for cognitive limitations due to Alzheimer's disease or another form of dementia, or if you suffer from severe cognitive impairment, or
- You are unable to perform at least two Activities of Daily Living (ADL) on your own. ADLs include bathing, eating, dressing, toileting, transferring in and out of beds, and care for incontinence.

These criteria are important to keep in mind with the many variables involved in designing a long-term care plan. The following sections are designed to provide an overview of the various features you will need to consider for your individual circumstances.

When benefits begin — the elimination period

You will need to select an elimination period, sometimes called a waiting period, which determines when your policy will begin paying benefits once you have qualified for benefits and have entered a nursing home or begin to use home services. During this elimination period, you will be responsible for paying all costs out-of-pocket.

In choosing an elimination period, you will want to keep in mind that the shorter the elimination period, the higher your premium. The longer you can wait for the benefits to begin, the lower your premium costs.

Check with your insurance company about your elimination period qualifications. Some companies may only require that you meet your elimination period once in your lifetime, while others may require meeting the elimination period more than once. Some policies will require you to leave the nursing home for a period and be readmitted before your policy can continue.

Daily benefit amount

You will need to select a daily benefit maximum when you buy the policy. Choices usually range from $50 to more than $900 a day. Most policies pay the actual cost of each day of care at a nursing home up to the daily benefit maximum amount you select. The premium cost will be higher if you choose higher daily benefit maximums. You will be responsible for the difference if actual care expenses exceed your daily benefit amount. Generally, policies pay benefits using either an "actual expenses incurred" method or an "indemnity" method:

- **Actual expense-incurred policy** – pays benefits only when eligible services are received.
- **Indemnity policy** – pays benefits as specified in the policy without regard to the specific services received.

For either policy, benefits will be paid to you, or you may "assign" your benefits and have them paid directly to the nursing home.

It is important that you know how much nursing facilities in your area charge before you select a

benefit amount. It is a good idea contact two or three nursing facilities in your area to determine current price ranges for daily care.

Length of the benefit period

When you buy a policy, you will also be asked to decide how long you want your benefits to pay out. This benefit period begins the first day you are eligible to receive benefits from the policy. The longer the benefit period, the higher the premium. Companies may provide a maximum benefit stated in a total dollar amount rather than a benefit period.

Tax-qualified long-term care plans

In 1996, Congress passed the Health Insurance Portability and Accountability Act (HIPAA), which amends the Internal Revenue Code and provides for favorable tax treatment for “qualified” long- term care plans. Policies sold after December 31, 1996, must meet new standards to be considered “tax qualified.”

If you have a tax-qualified plan:

- The benefits paid out by a qualified long-term care policy will generally not be taxable as income by the federal government.
- You may deduct all, part or none of the premium — to a certain level based on your age — for a long-term care insurance policy as medical expenses on your itemized federal tax return. The threshold is now 10 percent as determined by the Affordable Care Act, signed into law on March 23, 2010.

Check with your tax adviser to find if you qualify for a deduction, and if so, how much.

Tax status must be disclosed

All companies selling long-term care policies sold after January 1, 1997, must clearly identify the tax status of the policy. If the policy is tax qualified, the statement will normally be on the front page of the policy. Policies issued before January 1, 1997, are “grandfathered.” The IRS always has the right to make the final determination as to the tax qualification of any policy.

Non-tax-qualified long-term care plans

If you purchase a non-tax-qualified plan after January 1, 1997, you will not be able to deduct any portion of the premium, and any benefits paid may be considered taxable income to you. It would be best to consult with your tax adviser regarding these provisions.

Hybrid plans

Some life insurance policies and annuities may be considered a qualified long-term care policy if they provide certain long-term care benefits as a rider or part of the contract. You must meet the requirements outlined in the policy to receive long-term care benefits from a life insurance policy or annuity.

Many forms of premium structures are available. The more popular hybrid plans are funded through

a single premium, which eliminates the risk of future premium increases but requires considerable money to pay the premium. Hybrid plans give the consumer the option to receive benefit dollars for necessary long-term care services.

However, if the moneys are unused for long-term care benefits or withdrawal/surrender benefits, these dollars remain in the death benefit. Life/annuity long-term care hybrid products may be either reimbursement or indemnity products and may be marketed as providing long-term care benefits. Check with your agent or insurance company for the most current information on this type of policy.

OPTIONAL PROVISIONS OR RIDERS

Optional features could be added to your policy and most will add to the cost of your plan. The following are optional riders to consider when building your plan.

Inflation protection:

Providing inflation protection is a great addition to your policy because it ensures that your policy's value will increase with inflation. However, it may also significantly increase the cost of your coverage.

The added cost will depend on your age when you purchase the policy and when you expect to use the policy. The younger you are when you purchase a policy, the more important it is for you to consider adding inflation protection.

Inflation benefits may be increased on either a simple or compounded rate basis. If the inflation adjustment is simple, the dollar amount of the increase added to the benefit stays the same every year. However, if the adjustment is compounded, the benefit grows by an increasing dollar amount each year because interest grows on the principal and the interest previously earned.

In Kansas, every company must offer you an inflation protection option. It is your decision whether to purchase this coverage. If you refuse to purchase this coverage, you will be asked to sign a statement saying you do not want inflation protection. Be sure you understand what you are signing.

Inflation protection is mostly offered in one of two ways:

- Benefits automatically increase each year.
- Optional increases are offered to you on a periodic basis, such as every three years.

Inflation protection is not the same as a future purchase option, which allows you to choose to increase your benefit periodically. Your premium will initially be lower under this option but will increase each time you buy additional coverage.

Waiver of premium charges:

Most companies provide a waiver of premium provision. This provision allows you to stop paying premiums (waive the premium) once you are in a nursing home and the insurance company has started to pay benefits. Some companies waive the premium as soon as they make the first benefit payment. Others wait 60 to 90 days. This provision may not apply if you are receiving care in your home.

Nonforfeiture benefits:

With this benefit, if you cancel the policy or stop paying the premiums, you will not forfeit all benefits at the end of the period covered by your final premium. You will be eligible for a reduced benefit for a limited period until the non-forfeiture benefit is exhausted.

A nonforfeiture benefit can add significant cost, depending on factors such as your age at the time of purchase, the type of nonforfeiture benefit offered and whether the policy provides inflation protection. If your policy lapses without a nonforfeiture of benefits, you may not receive any benefits.

PERMITTED EXCLUSIONS IN A POLICY

- **Pre-existing condition** — A pre-existing condition is an illness or disability for which you received medical advice or treatment during a specified period before applying for insurance. Most long-term care policies will not pay benefits for these conditions for a certain length of time, usually six months, after you become insured.
- **Care by family members** — Most policies will not pay your family to take care of you. Some policies will pay to train family members to be your care provider. Check with the insurance company.
- Alcoholism and drug addiction, mental and emotional disorders or disease, other than Alzheimer's disease.
- Illness or accident caused by an act of war or a felony.
- Treatment already paid for by Medicare or any government program except Medicaid.
- Attempted suicide or intentionally self-inflicted injuries.

WHERE CARE IS RECEIVED

It is important to know where services are covered. If you are not in the right type of facility, the insurance company can refuse to pay. Policies may pay for care in different places. Many policies cover all three: nursing facilities, your home and adult day care.

Nursing home services

In Kansas, policies are required to cover stays in licensed nursing facilities. The average cost of a semi- private nursing home room in Kansas in 2023 was $246 per day, or $89,700 per year.

Home health care

Home health care services are provided in a person's home by a licensed home health agency. Covered services also may include part-time skilled nursing care and physical therapy. Some policies pay for homemaker services such as cooking, cleaning, and running errands. Benefits for home health tend to be less expensive than for nursing home care. The average cost of home health care in Kansas in 2023 was $185 per day, or $67,500 per year.

Adult day care programs

Policies may provide reduced coverage for services received in an adult day care facility. These programs provide care on a daily basis to individuals who do not require confinement in a nursing home. Benefits typically include nursing care; therapeutic, social, and educational activities; and constant supervision because of Alzheimer's or a similar disease. The average cost of adult day care programs in Kansas in 2023 was $114 per day, or $41,600 per year.

OTHER IMPORTANT INFORMATION

Client Assessment, Referral and Evaluation (CARE)

Everyone seeking nursing facility care must receive a CARE assessment before admission. This assessment takes about an hour and is at no cost to you. It provides an evaluation of your health and ability to perform normal daily activities. The evaluation is used to determine kinds of services you need and where to find those services. Your local Area Agency on Aging will help you obtain the assessment.

To find your local area agency on aging go to: www.k4ad.org for additional resources, visit www.payingforseniorcare.com/kansas

Selecting a nursing facility

When you are faced with selecting a nursing facility, take the following steps:

Ask the facility to see the most recent state survey report. Nursing facilities are required by law to let you see a copy of the most recent state survey report. The report will contain information on areas of care where the facilities did not meet the state and federal regulations and standards.

Visit the nursing facility and collect as much information as possible. CMS provides a free publication called *Your Guide to Choosing a Nursing Home*, which provides useful information on the types of questions to ask. To obtain your copy call 800-633-4227 or visit www.medicare.gov. You can also use this website for comparing nursing homes in your area.

QUALIFYING FOR COVERAGE

Underwriting

Companies selling long-term care insurance underwrite your policy by looking at your current health and health history before issuing you a policy. If you do not meet the guidelines established by the company, you may not qualify for coverage.

It is very important to answer all health questions as truthfully and thoroughly as possible. If a company later learns you did not fully disclose your health status on the application, the company could refuse to pay your claim or could rescind your policy. Lying about your health status on an insurance application could be a violation of state law.

In general, a copy of your application will be attached to your policy. It is advisable you review this application to be certain you have answered all health questions truthfully and the information you provided to the company is complete.

Pre-existing conditions

Companies may impose a six-month waiting period for pre-existing conditions. This means that policy benefits will not be paid for services related to conditions which existed within six months before you purchased the policy. If the company discovers you have not disclosed a pre-existing condition on your application, it may refuse to pay for treatment related to that condition or it could terminate your coverage. Lying about your health status on an insurance application could be a violation of state law.

Factors affecting your premium

Age — The younger you are when you purchase a policy, the less you will initially pay in premiums.

Elimination period — Premiums are less if you increase the elimination period. The longer you can wait for benefits to begin, the lower your premium will be.

Benefits — To decide the benefit amount you would like to have, multiply an estimated daily cost of care and by the number of days of care for which you want coverage.

Other factors — Where you live, your health at the time the policy is issued and any optional benefits you decide to add to your policy may increase your costs.

Companies may raise the premiums, but only if they increase the premiums on all policies. Individuals cannot be singled out for a rate increase.

PARTNERSHIP FOR LONG-TERM CARE

The Long-Term Care Partnership program is a joint state-federal policy initiative to promote the purchase of and expand access to long-term care insurance through "partnership-qualified" policies. The goal is to not impoverish yourself if you run out of insurance benefits, but still need care. This program benefits consumers by protecting their assets in the event they must utilize their long-term care insurance.

Asset Protection

This program protects the assets of consumers in the event they deplete your long-term care insurance benefits. Normally, if you completely exhaust these benefits, you would pay for the cost of care out-of-pocket and/or seek assistance from Medicaid. To qualify for Medicaid, your total assets must not exceed $2,000. Your qualifying Medicaid threshold will then be the sum up to the amount of benefits you have utilized in your long-term care policy, in the event all benefits are depleted.

Qualified plans

Not every long-term care insurance policy in Kansas is considered a Partnership-qualified plan. Partnership-qualified plans must be tax-qualified, contain certain consumer protection provisions, and provide inflation protection.

Partnership-qualified plans must have been purchased after April 1, 2007. Policies should have a rider attached indicating its status as partnership qualified.

To view a list of companies that issue Kansas-approved Partnership endorsements, visit insurance.kansas.gov/long-term-care/.

CONSUMER PROTECTIONS

All long-term care policies must provide a “free look” period of at least 30 days from purchase for you to review the policy features. Be sure your policy says what you think it does. For a full refund, return the policy before the 30 days are up. Using certified mail is a good idea, but not required.

Outline of coverage

During the sale of a long-term care insurance plan, the agent or company is required to provide you with an outline of coverage.

Third-party notification

This provision allows you to name another person (third party) who would be notified by the insurance company if the policy is about to lapse (terminate) because of nonpayment of the premium. The other person can be a relative, a friend or a professional (a lawyer or accountant, for example). This third party would then have a set period to pay the overdue premium. This provision is especially helpful for individuals who may be suffering from a mental incapacity and have forgotten to pay the premium at the time when they may need the coverage the most.

Guaranteed renewable

Long-term care insurance policies sold in Kansas must be “guaranteed renewable,” meaning the company may not change policy provisions or refuse to renew as long as premiums are paid. Guaranteed renewable does NOT guarantee you the same premium, but premiums can only be raised for entire classes of policyholders.

No prior hospitalization required

Policies sold today are prohibited from requiring a hospital stay prior to care in a nursing home.

SHOPPING TIPS

- If your income and assets qualify you for Medicaid, you do not need long-term care insurance.
- Do not wait until retirement to check on long-term care coverage through your employer's group insurance plan.
- Talk to several agents and companies. Compare policies. Policies have different coverage and costs. Companies also offer different services.
- Learn about the agent and company. Through the department's website you can find out how many complaints have been filed about a company or how many premium rate increases the company has had.
- Take your time. Do not be pressured into buying a policy.
- Never buy a policy or sign something you do not understand. Ask questions.
- Never sign a blank application. Answer all questions truthfully. An insurer can deny a claim or cancel a policy if an answer is incomplete or inaccurate.
- When buying by mail or online, see if the company has a local agent or a toll-free number you can call with questions.
- Make checks payable to the insurance company, never to the agent. Never pay cash. Pay by check or money order and insist the agent give you a receipt. Most companies require that you receive a receipt.
- Do not pay premiums for more than one year at a time. If there is no discount for an annual premium, it may be to your advantage to pay by the quarter or by automatic bank draft.
- Do not buy multiple policies. Generally, it is not necessary to purchase several policies to have enough coverage.
- Replacing an old policy: Before you buy a new policy, make sure it is better than the one you already have. Even if your agent has switched companies, carefully consider any changes. If you decide to switch, make sure your new application is accepted and the new policy is issued before you cancel the old policy. If you cancel an individual policy in the middle of its term, companies will return a pro-rata portion of any premiums you have paid.

RESOURCES

There are many resources available to you as a Kansas consumer. In addition to the Kansas Insurance Department, the following organizations provide resources.

Senior Health Insurance Counseling for Kansas (SHICK)

- Phone: 800-860-5260
- SHICK provides statewide insurance counseling through a network of more than 300 volunteers. You can receive personal assistance from trained volunteers. They will assist you with questions about Medicare, Medicare Supplement Insurance, Medicare Part D prescription drug coverage and long-term care policies.

Medicare

- Phone: 800-MEDICARE (1-800-633-4227)
- www.medicare.gov

Kansas Department for Aging and Disability Services (KDADS)

- Phone: 800-432-3535
- www.kdads.ks.gov or www.payingforseniorcare.com/kansas
- KDADS provides many programs and services for Kansas seniors. Services include, but are not limited to, nutrition and meal programs, home health care, homemaker services, housing, transportation, respite care, support groups, case management, and information on long-term care. Services are available through 11 Area Agencies on Aging. Some of those services include: aging and disability resource center, older Americans Act, Senior Care Act

Kansas Foundation for Medical Care (KFMC)

- Phone: 785-273-2552 or 800-432-0407
- www.kfmc.org
- KFMC provides independent medical review and monitoring of Medicare payments. You have a right to proper diagnosis and treatment under Medicare. KFMC will act on your behalf to protect your rights, especially relating to hospital stays and treatment. These services are free to Medicare beneficiaries.

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