RISK MANAGEMENT INSURANCE FUNDAMENTALS
LIFE AND HEALTH INSURANCE

PART 3 OF 4

TUESDAY, OCT. 11, 2 P.M. EDT | FREE CSG ECADeMY SERIES
in Collaboration with The Griffith Insurance Education Foundation
Risk Management & Insurance Fundamentals for Policymakers
Part Three of a Four-Part Series

Four assignments:
- Insurance Principles
- Insurance Coverages: Property and Casualty
- **Insurance Coverages: Life and Health**
- Insurance Regulation and Legislation
Big Picture 1:

• Next few decades, age 65+ adults in U.S. will grow from 14% to 20% of population
• By 2050, the number of age-65 adults will be ~90 million, out of 440 million in the U.S. (twice the current number)
• Big reason: Baby boomers (‘46-’64) have started reaching this milestone
Big Picture 2:

• As the US population ages, important issues emerge
  • Social Security & Medicare funding
  • Changing demographics impact how families plan for:
    • Possible early death
    • Health care expenses
    • Retirement (work until age 70, 80, ....?!)  
• Given these challenges, let’s consider issues related to life insurance, annuities, and health insurance
Insurance Coverages: Life and Health Topics

- Types of Life Insurance
- Introduction to Annuities
- Health Insurance Plans
Life Insurance:
Why Would Someone Buy It?

• Replace Lost Income/Maintain Lifestyle for “The Living”
• Pay Debts/Provide for College Education
• Fund Payment of Estate Taxes
• Provide Bequests to Loved Ones or Charities
• Fund Buy/Sell Arrangements
• Protect Against Death of Key Individuals (“Key Person”)
• Access Investment / Savings Features and Tax Deferral
• Unlike other types of insurance (e.g., auto), life insurance generally is limited to one claim!
Types of Life Insurance

- Term life (plain/simple, no “savings” feature/account)
- Cash Value life
  - Whole life (term ins. + savings)
  - Universal life (UL)
  - Variable Life (VL)
  - Variable Universal life (VUL)
- Specialty products
  - Equity-Indexed UL
  - Current assumption whole life
  - Second-to-die (survivorship)
  - First-to-die (joint)
Poll:

What type of life insurance do people typically receive as an employee benefit at work?

a. Term
b. Whole Life
c. Universal Life
Term Life Insurance

- Coverage for specified period (e.g., 5, 10, 20 years)
- No cash value
- Policy value paid to beneficiary on insured’s death
- Premium escalates with age
- Renewable
- Typically is convertible to cash value life
Term Versus Cash Value Pricing

$ or $p(l)$

level premium

“overpayment”

$mortality curve (~term)$

“under Payment”

x  time  100
Whole Life Insurance

- Lifetime protection
- Accrued cash value
- Level premiums
- Loans on cash value
Universal Life Insurance(1)

- Separate protection, savings, and expense components
- Earns higher of minimum interest rate or market interest rate
- Flexibility—premiums, access to cash value, and additional insureds
- Risks—policy lapse, growth variability
Universal Life Insurance (2)

• Characteristics
  • Flexibility in premium
  • Flexibility in death benefit
• Transparency
  • Can see all cash flows in / out of policy
  • Can see Interest Rate
• Surrender Charge
• Death Benefit
  • Option A: Death benefit level
  • Option B: Death benefit increases with cash value
### Universal Life Insurance

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<th>Premium</th>
<th>Mort Charge</th>
<th>Expense Charge</th>
<th>Balance</th>
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<th>Cash Value</th>
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$100,000 Face Amount (Spreadsheet)
Variable Life Insurance

- Choice of investment accounts
- Level premiums
- Variable investment performance
- Tax-free investment account changes
Variable Universal Life

- Value based on insurer’s account performance
- Choice of accounts
- Significant expense loadings and mortality cost charges
What Do You Think?

Which type of life insurance is the best (Term, Whole Life, Universal Life, etc.)?
# Life Insurance Type Features

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QUESTIONS?
Introduction to Annuities

Annuities are designed to transfer to an insurer the risk of outliving one’s income.
The Risk

- We’ve worked hard and saved $1 million
- The Risk: We might live a (really) long time and outlive our assets
- Might not live as long as Methusala, but in most countries:
  - 65-year-old men and women can expect to live to 81+ and 85+
  - 1/3+ women, 1/5+ men......beyond 90
Life Insurance vs. Annuities

• Think of as opposite of LI
  • Life insurance addresses the risk of dying too soon—mortality risk
  • Annuities address the risk of living “too long”—longevity risk

• Oscar Wilde:
  • “….It is better to have a permanent income than to be fascinating.”
Purpose of Annuities

- Tax-efficient retirement savings—Accumulated cash value is tax deferred.
- Income that cannot be outlived
- Guaranteed death benefit

Basic Idea is: For every $100,000, 65-yr-old can receive ~$700 in monthly income ($8,400 per year), for life
Poll:

In the private annuity market, for the same $100,000 @ age 65, who receives more monthly income?

a. Women  
b. Men  
c. They receive the same
Parties to Annuity Contracts

- The insurer
- The contract owner (the buyer/contributor)
- The person insured under the annuity (annuitant)
- The beneficiary (receive death benefit, if any)
Payment Guarantees

Guarantees vary by annuity:
- Straight life annuity
- Life annuity with period certain
- Refund annuity

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Note: Male age 50 equals female age 55, and so on. Amounts are higher and lower for various insurers.
QUESTIONS?
Health Insurance Plans

Various types of group and individual healthcare plans are available in the market.
Tax Treatment of Group Health Insurance

• Deductible at corporate level
• Not taxed at individual level by federal or state income tax, or Social Security tax
• A major reason for the predominance of an employer-based health insurance system
• Some debate as to changing / limiting the tax benefits
  • Consider that the value of life insurance as employee benefit is taxable above a threshold
Traditional Health Insurance Plans

- Based on fee for service, or indemnity
- For individuals or groups
Blue Cross and Blue Shield Plans

- Separately regulated
- Basic and major medical expense coverage
- Managed-care plans
- Direct payment to providers
Managed Care Plans

- Negotiated provider fees
- Reduced consumer costs
- Limited consumer flexibility
- Coverage of standard services
The Affordable Care Act (1)

- Encompasses two pieces of legislation
  - The Patient Protection and Affordable Care Act of 2010 (P.L. 111-148)
  - The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152)

- Combined, these aim to “…expand Medicaid coverage to millions of low-income Americans and make numerous improvements to both Medicaid and the Children's Health Insurance Program (CHIP)”

- Each state runs its own Medicaid program, but must comply with federal guidelines set by the ACA
The Affordable Care Act (2)

- Individual Mandate: Individuals are required to maintain coverage or pay a penalty (some people are exempt; others can receive assistance)
- No denial of coverage or higher premiums for existing conditions
- No lifetime limit on essential benefits
- Coverage under parents’ health insurance plans through age 25, until the person is 26 years old (then enroll themselves)
- Purchase through employer (most people) or through an Insurance Exchange (state or federal)
In general, the “metal” plans below will pay about X% of an insured’s overall health care costs:

- Bronze: 60%
- Silver: 70%
- Gold: 80%
- Platinum: 90%

Premiums based on:

1. Age
2. Smoker / Non-smoker
3. Where the insured lives
4. How many people enroll with you
5. Insurance Company
Managed-Care Plan—HMO

- Covers only network-provided services
- Fixed, prepaid fee
- Copayments for routine visits
- Primary physician preapproval of specialist
- HMO preapproval of some treatments and services
- Oversight of tests and treatments
Managed-Care Plan—PPO

- Choice of providers
- Lower medical costs and deductibles
- No primary physician required
- Generally costlier than HMOs
Managed-Care Plan—EPO

- Lower premium
- Insurers’ access fee for use of network
- Fee schedules for medical service levels
- Exclusive-network-use requirement, except for emergencies
Medicare

Medicare Advantage managed-care options

- HMOs
- Provider-sponsored organizations
- PPOs
- Medical savings accounts
- Private fee-for-service plans
- Special-needs plans
Consumer-Directed Health Plans

- Lower premiums, higher deductibles (HDHP)
- No deductibles for preventive care
- Use of HSA or HRA to help pay deductibles
- Informational decision-making tools
Summary

- Life insurance can provide financial security for survivors of an insured who dies.
- Annuities can protect holders against outliving their income.
- Health insurance plans cover routine and major medical costs.
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