

Module 6

THE PLACE OF INSURANCE

IN YOUR FINANCIAL PLAN

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Introduction

- Understanding the different insurance options available to you and why each is an important part of a sound financial plan.
- There are a variety of “sub-types” each representing a slightly different kind of coverage
- Too much of a good thing? Insurance coverage can be a reassuring safeguard against unknown future events but it comes at a price



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Module Outline

- Section 6.1: Life Insurance
- Section 6.2: Disability Income Insurance
- Section 6.3: Long Term Care Insurance

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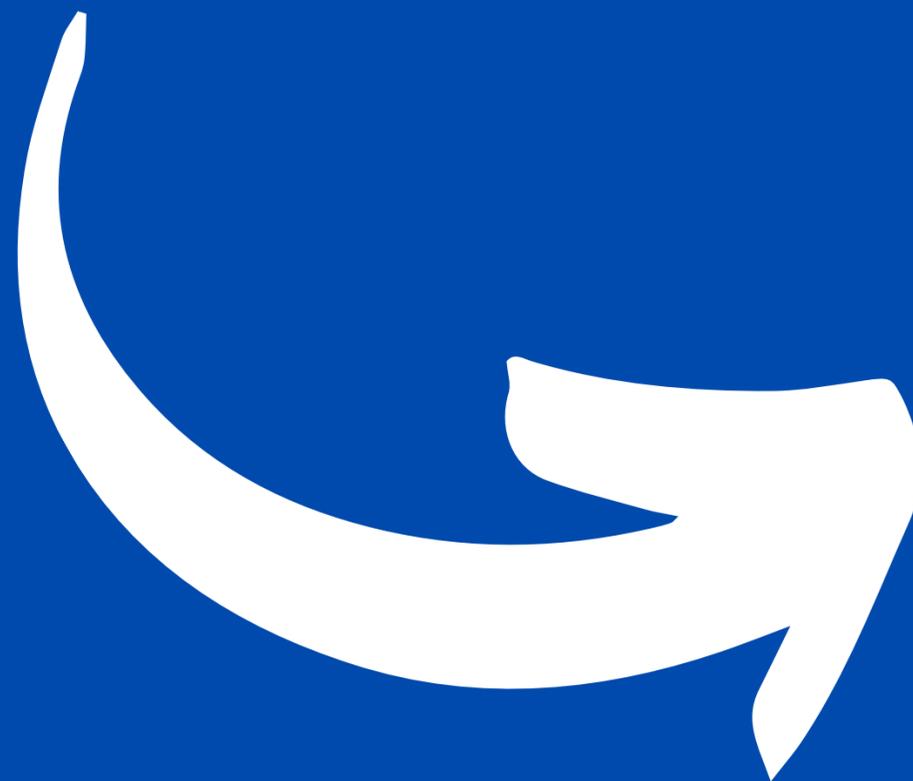
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Let's get started!



Section 6.1

Life Insurance

- What exactly are you insuring?
 - "Economic value" of the person being insured
 - Specific amount or period of time
 - Paying off debts



Section 6.1

Life Insurance



Example: John and Cindy Smith

John's Age: 35

John's Annual Income: \$50,000

Total Debt: \$250,000

Dependents: Kids ages 5 and 3

$$\begin{array}{r} \$2,028,404 \\ + \$250,000 \\ + \$80,000 \\ \hline \$2,358,404 \end{array} = 50,000 \times \left[\frac{(1+.02)^{30} - 1}{.02} \right]$$

Section 6.1

Life Insurance

- What is Term Life Insurance?
 - Specific amount for a specific time period
 - Amount and cost of coverage is guaranteed for the length of the policy
 - Common policy terms are 10, 20, and 30 years
 - "One-sided" contract ; stays in force if you pay the premium

Section 6.1

Life Insurance

- What is Permanent Life Insurance?
 - Coverage that lasts for your whole lifetime
 - Different forms but generally includes a cash value component
 - Usually offers other benefits such as reducing premiums, increasing coverage, or creating a pool of tax-free money
 - Examples include: Whole life, universal life, variable universal life, and indexed universal life

Section 6.1

Life Insurance

- What is Group Life Insurance?
 - Usually offered as term coverage and is "not portable"
 - Typically lower rates than individual term policies
 - Premiums are paid via payroll deduction
 - Group coverage does not require medical underwriting

Section 6.1

Life Insurance

	Term	Permanent	Group
Length of Term	10, 20, or 30 years	N/A	Tenure at company
Cost	\$\$	\$\$\$	\$
Other Benefits	N/A	Cash value, paid up additions, premium reduction	No medical underwriting
Portable	Yes	Yes	No

Section 6.1

Life Insurance

- How much should you pay for coverage?
 - Recommend using an insurance agent to get accurate quotes
 - Rates for women are generally less than men
 - Paying monthly is approx 7-9% more expensive than annually
 - Term premiums should not exceed 3% of your monthly budget ; permanent policies may be 3-4 times higher



Section 6.2

Disability Income Insurance

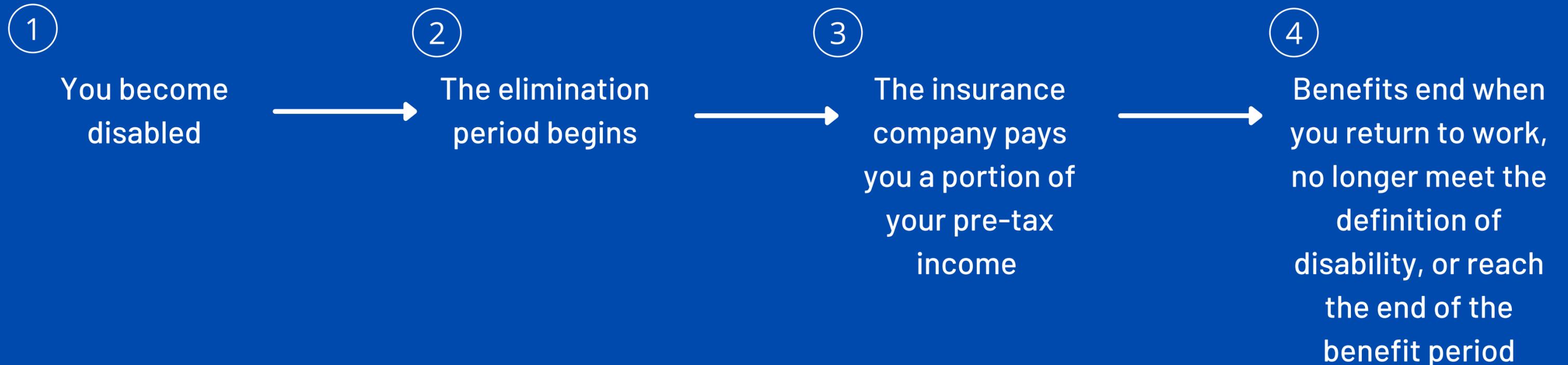
- What exactly are you insuring?
 - Insures your most valuable asset – Your ability to earn an income
 - Not the same as accident or critical illness policies
 - Different types of policies that cover your income if you are unable to work in varying situations



Section 6.2

Disability Income Insurance

How Does it Work?



Section 6.2

Disability Income Insurance



- DI Insurance policies are very customizable
 - Elimination period (60, 90, 180 days, etc.)
 - Total disability
 - Partial disability
 - Residual disability
 - "Own Occupation" provisions

Section 6.2

Disability Income Insurance

- Group Short-Term Disability
 - Coverage that begins immediately and usually lasts for up to 26 weeks ; pays a weekly benefit
- Group Long-Term Disability
 - 90 or 180 day elimination period ; covers up to two thirds of an employee's income



Section 6.2

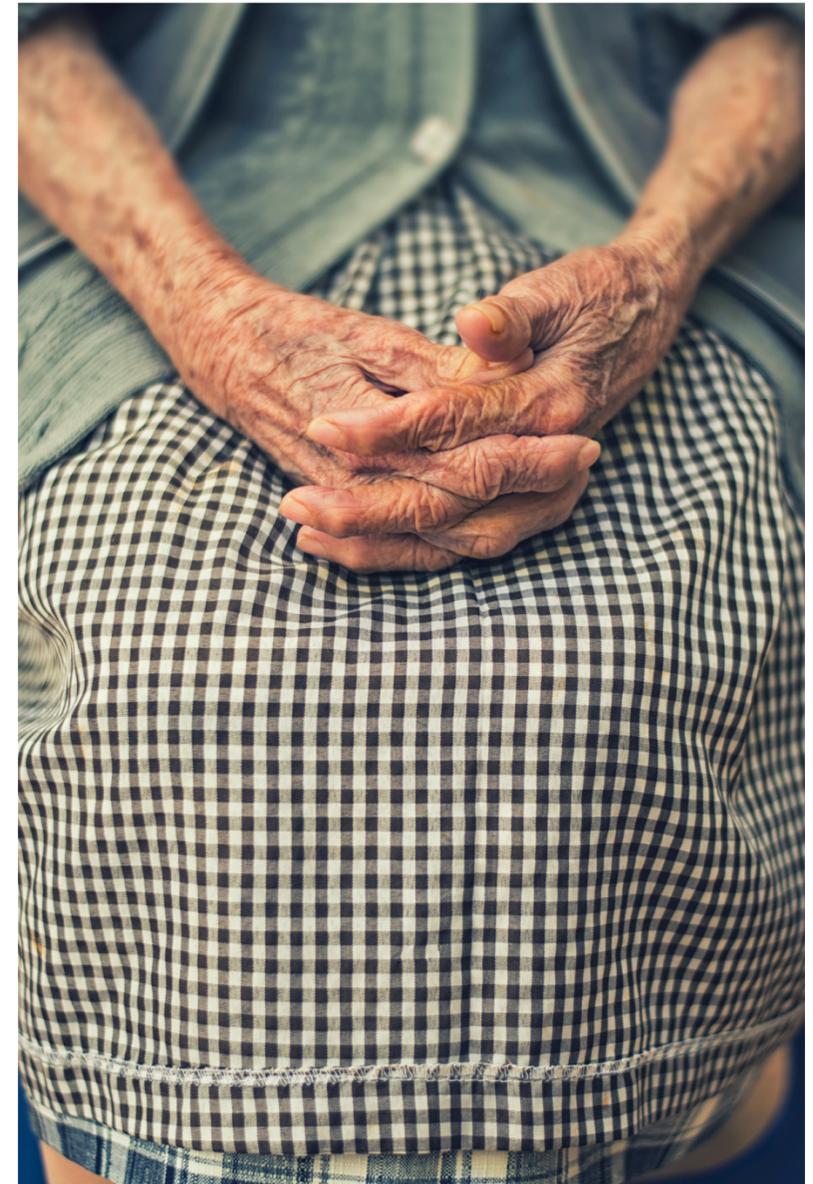
Disability Income Insurance

- Other Considerations
 - Individual policies will cover no more than 80% of your monthly income
 - Coverage can be written to fill gaps left by group coverage
 - Your age, gender, health, income, occupation, and certain hobbies and travel can all affect the cost of your policy

Section 6.3

Long Term Care Insurance

- What does this insurance cover?
 - Care, in a facility or at home, that is required when an insured person is unable to perform 2 or more of the 6 "Activities of Daily Living" (ADL's)



Section 6.3

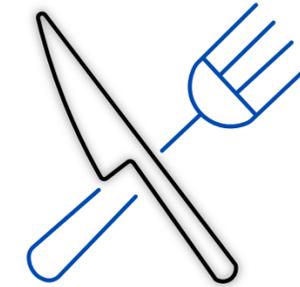
Long Term Care Insurance



Bathing



Dressing



Eating



Transferring



Toileting



Continence

Section 6.3

Long Term Care Insurance



- When should I purchase coverage?
 - Rates are lowest when you are young
 - Can be quite expensive to carry for an extended period of time
 - Rarely offered as a group benefit
 - Common to wait on purchasing a policy until you are in retirement

Section 6.3

Long Term Care Insurance

- Types of coverage
 - Conventional
 - Provide a monthly or lifetime benefit
 - Waiting period
 - Potential premium increases
 - Asset Based
 - Lifetime benefit
 - One lump-sum payment
 - Pooled benefit that can be used jointly
 - Can use existing retirement account as initial payment

Section 6.3

Long Term Care Insurance

Challenging Marketplace



Conclusion

- You should now have a general understanding of the different types of insurance and the impact that they could have to your finances
- Insurance can play an important role in your financial plan and it is worth considering all of your options
- Now we will move on to our next module, “The Place of Annuities in your Financial Plan”

Congratulations on Completing Module 6!



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