THE MARTIN WORLEY GROUP™
PERSONAL WEALTH ADVISORS

2017 Planning Check-up - Insurance

Life Insurance – *Do you need it?* Maybe, maybe not.
You likely need life insurance if you have children, a spouse or someone that depends on your income, and your investment portfolio has not reached a value high enough to support them by itself.

Below are some of our rules of thumb:

- If you need it, how much? A decent starting point is found by multiplying your pre-tax annual earnings and multiplying by 10. This is just a rule of thumb, so it may or may-not be enough, depending on your particular circumstance.
- Do you or your spouse have responsibilities which would be expensive to outsource? Caring for children, helping with elderly parents, maintaining rental houses, or managing a business, are examples of expenses that may arise as a result of your or your spouse's death and should be evaluated for funding or payment through insurance.
- If you are being sold a Whole Life Insurance policy, bring out the skeptic inside you, as permanent insurance is rarely necessary. A permanent life policy is typically a combination of insurance and a very expensive investment portfolio.
- Term insurance is typically the better option for most people. When Term and Whole Life policies are compared, most individuals would be better off purchasing term insurance and investing the difference.

Annuities – *What they are and the common concerns we encounter.*
There are two types of annuities: Fixed and Variable. At their core, a fixed annuity is a simple contract with an insurance company. You give them a lump sum and they agree to pay you a recurring fixed amount for an agreed-upon time period, which includes an inherent interest rate within the payments. These can be simple products, typically inexpensive, but the interest rates paid to you are usually not very attractive.

Variable annuities combine an investment portfolio with a fixed annuity option that can be turned on at a future date. The investment portfolio is inside an insurance wrapper which allows for tax deferral until the money is paid to you. There are also riders available which allow for guaranteed income and insurance coverage, but these do not come free.
Some common concerns we encounter with variable annuities include:

- Many variable annuities charge very high fees including surrender charges, insurance charges, investment management fees, and other rider charges.
- Annuities convert capital gains into ordinary income, which are taxed at higher rates. When distributions are made, all earnings on the underlying investment portfolio are taxed at ordinary income tax rates.
- With the notable exception of products such as Lincoln's I4Life policy, which we have utilitized, distributions come out of earnings first, and principal second. This likely means the first several years of distributions come from earnings rather than principal and will be fully taxable.

- Variable annuities inside a retirement account are typically unnecessary, as a retirement account already provides deferral of income tax. There are instances where certain products can be beneficial if your primary goal is guaranteed income.
- Surrender charges can make it very expensive to change your mind and get out of a variable annuity.

We have found some low cost annuity products available that may make sense for specific clients with annuity needs. These are especially attractive if you have an annuity which someone else previously sold you that can be converted into one of these less expensive products, without tax consequences.

Umbrella Insurance Policy – *If you don't have one, you may want to consider it.*
This is often considered a "Must-Have." Personal Liability Umbrella Insurance provides personal liability protection that sits on top of all of your other coverages (home-owners, renters, auto, etc.) and provides an "umbrella" over them. It is typically inexpensive, as the other policies pay first, and the umbrella pays second if there are gaps in coverage or if the total liability exceeds the primary insurance coverage. There are many forms of asset protection, but very few are as inexpensive as an Umbrella policy.

As a rule of thumb, you should have a policy for at least 50% more than your net worth, with a minimum of $1 million. The benefits also start declining on policies above $5 million, as settlements are rarely higher. According to the Insurance Information Institute, 18% of personal injury liability awards and settlements were $1 million or more in 2014. If you have a $1 million policy, a net worth of $1 million and are sued for $2 million, you could still be left with nothing.

Uninsured & Under-Insured Motorist Insurance – *You probably have it, but is it enough?*
This inexpensive additional auto coverage is also considered a "Must-Have." Although most states require drivers to carry auto liability insurance coverage, many are still not insured or are under-insured. According to the Insurance Information Institute, one in eight drivers on U.S. roads is uninsured! If you are in an accident with one of them, or are involved in a hit-and-run, this coverage could be the difference between financial prosperity and devastation.

Long Term Care Insurance – *The good, the bad & the ugly*
The U.S. Department of Health and Human Services estimates that almost 70% of people turning age 65 will need long-term care at some point in their lives. At a national average cost of $6,235 per month for a semi-private room in a nursing home, this can get very expensive, very quickly. Unfortunately, the reasonably priced, lifetime coverage LTC policies of the past are long gone. Most of the policies we see today have high premiums (that continue to go up), low benefit payouts, and short benefit periods.

There is a relatively new breed of LTC policies commonly called hybrid policies that have some interesting guarantee features, but they come with large upfront premiums that are not feasible for many people. There's an old saying about Long Term Care insurance that is unfortunately accurate in today's environment: "Those who can afford Long Term Care don't need it, and those that need it can't afford it."

Disability Insurance – *If your financial stability depends on you working, you should consider it.* Disability insurance for many is more important than life insurance. While your significant other or family may have some options to reduce expenses or increase income in the event of your death, it may not be so easy if you become disabled. With a disability, not only do your expenses tend to rise but your earning power could dramatically decrease.

Below are some common areas to pay close attention to:

- Know your policy. The most important piece of the policy is the definition of disability. Typically an "own occupation" definition is the best as it is more likely to pay you a benefit if you become disabled versus an "any occupation" definition.
- Is your employer policy sufficient? Employer policies typically have several disadvantages including benefits possibly being taxable, portability if you change employers, caps on potential benefit and disability definitions other than own occupation.
- As with all insurance, you should try to get quotes from multiple carriers for the best and cheapest policy available for you. There are many independent brokers that can show policies from several carriers instead of agents who provide quotes from one.

We can help take some of the unknowns out of your protection planning. Let us know what questions or concerns you have.

Sources:
https://longtermcare.acl.gov/the-basics/index.html
http://www.iii.org/fact-statistic/litigiousness
http://www.iii.org/issue-update/compulsory-auto-uninsured-motorists