SOFA

THE SOCIETY FOR FINANCIAL AWARENESS

DC Metropolitan Chapter www.dcsofa.org

ALL ABOUT INSURANCE

Why do we need insurance?

Insurance is all about playing defense, where as an investment is an offense. You protect yourself and your asset by having insurance.

Insurance really covers three things. Your belongings (property), your liabilities, and your body (health).

On average, insurance is a negative sum game for the policyholders. The average policyholder will pay more in premiums than he/she can reasonably expect to get back from the policy. This is how insurance companies make money. However, the downside to not having it when you need it could prove catastrophic.

Basic Insurance Policies

What to Have:

- **Health Insurance**
- **Car Insurance**
- **Homeowner's or Renter's Insurance**
- **Life Insurance**
- **Long Term Care Insurance**
- **Disability Insurance**

What to Skip:

- **Accidental Death Insurance *(generally contains so many restrictions that it is nearly impossible to collect)***
- **Disease Insurance: *(a good health insurance policy is a far better investment)***
- **Mortgage Life Insurance: *(a good term life policy will cover your mortgage in the event of your death)***

Health Insurance

Federal Employees Health Benefits (FEHB)

Despite recent premiums increasing FEHB still provides excellent coverage and, unlike many private sector plans, can be carried into retirement

With FEHB, you can get comprehensive health insurance coverage for you, your spouse, and your children under age 26. There are no waiting periods and no restrictions on pre-existing conditions. All plans offer preventative services at no cost when received from a Preferred Provider. This includes childhood immunizations, screenings for cancer, diabetes, and high blood pressure, and tobacco cessation services and medications. No matter where you live, you have 11 or more health plan options to choose from, each covering:

• Routine physical exams • Doctor's office visits • Specialist visits • Lab tests • Prescriptions • Ambulance services • Inpatient hospital care • Surgery • X-rays • Maternity care • Urgent care • Mental health services • Stop smoking aids • Physical therapy • And more

Comparing Healthcare Plans

OPM has an online tool to help you choose the best plan for you and your family: **https://www.opm.gov/healthcare-insurance/healthcare/plan-information/compare-plans/**

Simply enter your zip code, employee type, pay frequency, and current plan (if applicable), and you will receive a wide range of choices which you can sort by premium, deductible, or out of pocket limit.

Often the number of choices can be overwhelming – here are a few tips:

- ✓ Ensure that your doctor accepts your new insurance plan
- ✓ Determine your typical health care costs (one way is to ask What was your deductible last year? Did you hit it?) - You will usually pay lower monthly premiums if you agree to a higher deductible. A good rule of thumb is that if you didn't come anywhere close to hitting your deductible last year, you can probably choose an even higher deductible this year and save on premiums
- ✓ Do this simple equation to compare plans: Multiply each plan's monthly premium by 12, then add the out-of-pocket maximum. That's how much you could pay in total if you suffered a medical crisis this year
- ✓ Consider the average PPO plan vs. the average high-deductible plan. PPOs let you see doctors in- and out-of-network but charge the highest premiums. High-deductible health plans have much lower premiums. When you do the math, though, you'll find that the plans with the lowest premiums carry a hidden risk—more of your money is on the line if you ever get sick.

The Bottom Line – no one size fits all

Choosing a plan that your doctor accepts is a must. From there, if you're relatively healthy and you have enough savings to cover a health care emergency, a high-deductible plan often makes sense. But if you tend to have high health care costs, you're short on savings, or your employer isn't adding to your HSA as an incentive, take a careful look at your potential outlay—it may be worth paying more upfront for better coverage later.

Sources: Time/Monet Magazine Goodcare

Car Insurance

- **Having car insurance is essential because it covers your expenses in the event of vehicle damage or injuries to other drivers, passengers or pedestrians.**
- **All motorists must be insured against their liability to other people, as stipulated in the Road Traffic Act 1988 (laws for car insurance are set at the state level; New Hampshire is the only state that doesn’t mandate car insurance for all drivers)**
- **The most important coverage has to be your state's minimum liability and property damage coverage. More than anything else you need to maintain car insurance to keep yourself legal to drive. You risk losing your driver's license and fines driving without it. Get into an accident without liability coverage and you could be facing enormous penalties including bills from the damages you caused**
- **You want to protect your own property too. You will need to purchase physical damage coverage so you are protected against major expenses of car repairs if you cause damage to your vehicle or some other outside factor causes damage to your car.**
- **Comprehensive coverage will payout for damage from anything other than a collision. It includes but is not limited to deer, glass damage, fire, theft, vandalism, and storm damage. A deductible usually applies.**
- **Collision coverage pays out when you damage your vehicle in a collision whether it is with another vehicle, a tree, or mailbox it does not matter. Collision will pay out minus your deductible.**

Homeowners Insurance

Homeowners insurance is a package policy. This means that it covers both damage to property and liability or legal responsibility for any injuries and property damage policyholders or their families cause to other people. This includes damage caused by household pets.

Damage caused by most disasters is covered but there are exceptions. Standard homeowners policies do not cover flooding, earthquakes or poor maintenance. Flood coverage is provided by the federal government’s National Flood Insurance Program, although it is purchased from an insurance agent. Earthquake coverage is available either in the form of an endorsement or as a separate policy. Most maintenance related problems are the homeowners’ responsibility

A standard homeowners insurance policy includes four essential types of coverage. They include:

- **Coverage for the structure of the home**
- **Coverage for personal belongings**
- **Liability protection**
- **Additional living expenses**

Disability Insurance

Disability Insurance is the industry name for a plan that provides for periodic payments of benefits when a disabled insured is unable to work. The insurance product is designed to replace anywhere from 45 to 65% of your gross income on a tax-free basis should illness keep you from earning an income in your occupation

There are several types of disability policies that are available; they each have their own unique characteristics and pricing.

TYPES OF DI POLICIES

- **Guaranteed Renewable**: These policies contain provisions that guarantee that the policies will be renewed by the insuring company for the benefit period for which the policy has been issued. For example, a policy issued with a benefit period of "to age 65" will be renewed at least to age 65, provided the premiums are paid in a timely manner. This means that the insuring company can make no changes in the policy after issue and only the insured has the right to terminate the policy. The rates for these policies may be increased, but only if done so on all policies in that class within the state of residence. In other words, an individual may not be singled out for a rate increase. Some companies guarantee the rate for the first three years of the policy.

- **Non-Cancelable:** The renewal provisions for this type of policy are very similar to the guaranteed-renewable policy, except that the premium for the non-can policy cannot be changed during the renewal period, which is typically "to age 65." Premiums for this type of policy will be higher than guaranteed-renewable policies.

- **Optionally Renewable**: Rarely seen any more, these policies were made available quite a few years ago. They can be terminated by the issuing company and, while low in cost, should be avoided for the obvious reason of the vulnerability of the insured.

- **Group Long- and Short-Term Disability Plans**: These are most frequently found in employer-employee business environments and, in many cases, are paid either in full or in part by the employer. The short-term plans are typically written with shorter elimination periods (such as seven, 15 or 30 days) and no more than a 13- or 26-week benefit period. The long-term plans are typically written with a 30-day or longer elimination period, and range from a two-year benefit period all the way “to age 65” (which is the most frequently seen benefit period). There are usually very few optional benefits available with these types of plans. In a growing number of circumstances, these plans can be voluntary, in which case the employee pays all or a large portion of the premium.

- **Voluntary Job-Site Disability Plans**: The majority of these plans are offered through an employer but paid for by the employee. Typically, there is a short presentation and employee enrollment on the job site. The benefit periods are typically shorter in duration, although some plans are now offering longer benefit periods. While low in cost, benefit amounts are normally less than that offered through individual policies. As an economical alternative to other, higher-priced individual plans, these plans may be a good choice for hourly workers.

Source: NAHU

Life Insurance

There are two major types of life insurance—**term and whole life.**

Whole life is sometimes called permanent life insurance, and it encompasses several subcategories, including traditional whole life, universal life, variable life and variable universal life.

Term Insurance is the simplest form of life insurance. It pays only if death occurs during the term of the policy, which is usually from one to 30 years. Most term policies have no other benefit provisions

TERM LIFE INSURANCE

- There are two basic types of term life insurance policies: level term and decreasing term. Level term means that the death benefit stays the same throughout the duration of the policy. Decreasing term means that the death benefit drops, usually in one-year increments, over the course of the policy's term.
- Common types of level term
  - Yearly- (or annually-) renewable term
  - 5-year renewable term
  - 10-year term
  - 15-year term
  - 20-year term
  - 25-year term
  - 30-year term
  - Term to a specified age (usually 65)

WHOLE LIFE INSURANCE

- Whole life or permanent insurance pays a death benefit whenever you die. There are three major types of whole life or permanent life insurance—traditional whole life, universal life, and variable universal life, and there are variations within each type.
- In the case of traditional whole life, both the death benefit and the premium are designed to stay the same (level) throughout the life of the policy. The cost per $1,000 of benefit increases as the insured person ages, and it obviously gets very high when the insured lives to 80 and beyond. By law, when these "overpayments" reach a certain amount, they must be available to the policyholder as a cash value if he or she decides not to continue with the original plan. The cash value is an alternative, not an additional, benefit under the policy.

TYPES OF WHOLE LIFE INSURANCE

Whole or ordinary life

- This is the most common type of permanent insurance policy. It offers a death benefit along with a savings account. If you pick this type of life insurance policy, you are agreeing to pay a certain amount in premiums on a regular basis for a specific death benefit. The savings element would grow based on dividends the company pays to you.

Universal or adjustable life

- This type of policy offers you more flexibility than whole life insurance. You may be able to increase the death benefit, if you pass a medical examination. The savings vehicle (called a cash value account) generally earns a money market rate of interest. After money has accumulated in your account, you will also have the option of altering your premium payments – providing there is enough money in your account to cover the costs. This can be a useful feature if your economic situation has suddenly changed. However, you would need to keep in mind that if you stop or reduce your premiums and the saving accumulation gets used up, the policy might lapse and your life insurance coverage will end. You should check with your agent before deciding not to make premium payments for extended periods because you might not have enough cash value to pay the monthly charges to prevent a policy lapse.

Variable life

- This policy combines death protection with a savings account that you can invest in stocks, bonds and money market mutual funds. The value of your policy may grow more quickly, but you also have more risk. If your investments do not perform well, your cash value and death benefit may decrease. Some policies, however, guarantee that your death benefit will not fall below a minimum level.

Variable-universal life

- If you purchase this type of policy, you get the features of variable and universal life policies. You have the investment risks and rewards characteristic of variable life insurance, coupled with the ability to adjust your premiums and death benefit that is characteristic of universal life insurance

What Can Life Insurance Do?

A Multipurpose Financial Planning Tool

Life Insurance Strategies

- ✓Income Replacement
- ✓Pension Maximization
- ✓Tax Shelter
- ✓Long Term Care
- ✓College Planning
- ✓Accelerate Income (Living Benefit)
- ✓Estate Planning

THE BASICS

Most Important-How Much Should I Own?

- ✓ Human Life Value
- ✓ Needs Based
  - College
  - Mortgage

  Always Changing

What Kind Should I Own?

- ✓ Term -"Renting" a home
- ✓ Permanent - Owning House
  - Whole Life/UL/VUL/IUL

STRATEGIES

- Income Replacement
- Pension Maximization
- Tax Shelter
- Long Term Care
- College Planning
- Accelerate Income
  (Living Benefit)
- Estate Planning

Income Replacement

- Premature Death
- Social Security /Pension
  - 30%/50% Loss of Income
  - Traditional Planning Often Ignores
- 50,000 Pension after death, what typically goes to the survivor?

PENSION

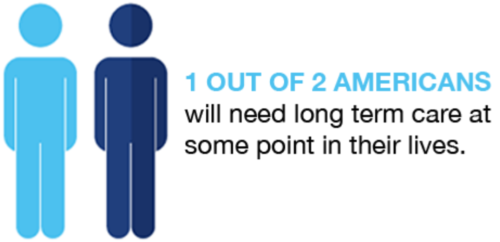
- Pension Options
  - 100% Life only – 50,000 Exp.
  - 50% Survivor Benefit 50% = (3,250) = 46,750.00
    - Dual Pension Income Family
- Cost of Survivor Benefit – (6.5%-8%)
- LOC on Pension

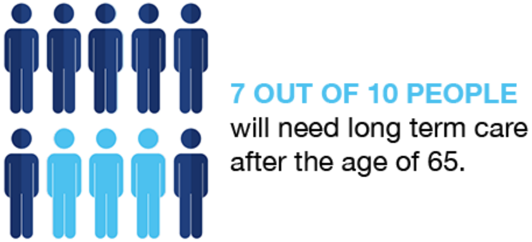
Tax Shelter

- Surplus or Gap
- Lower/Highs Brackets
- RMD's Social Security = Reinvestment?
  - Roth TSP/Shadow Prevision
- Where can you Re-Invest Money in Retirement with Tax Free Growth?

LONG TERM CARE INSURANCE

- Pays benefits when you need extended care
- Especially valuable for middle income Americans who want to preserve financial independence and quality of life
- Freedom to choose care
- Can help preserve assets
- Some of your premiums are tax deductible





Long Term Care

- LTC Insurance
  - Downside
    - Ever Increasing Premiums
    - If I Don't Use it, I Lose it
    - Under Funded
      - 150 a day
- Life Insurance with a LTC Rider
  - Guaranteed Premium
  - Lower Cost
  - No Loss
  - Beware of Right Fit

College Planning

- ✓ **Tax Free**
- ✓ **FAFSA: Not Included**
- ✓ **College Insured/Death**
- ✓ **Money is Liquid/Control**
- ✓ **Recapture Term Premiums**
- ✓ **Guarantees on Cash**
- ✓ **Creditor Protection**

Accelerate Income
(Living Benefit)

- Leverage the Death Benefit as a Living Benefit
  - 1,000,000 x 4% = 40,000
  - 1,000,000 x 7% = 70,000
- 2008
- Less Risk/More Income

Estate Planning

- Who do you want to make decisions over your assets, your healthcare, your family's future, etc.
  - You *or* the government?
- How much of your estate do you want to be paid to courts and lawyers?

Estate Planning

- **Important Documents to Consider**

- **Revocable Living Trust**
- **Last Will & Testament (Pour-Over Will)**
- **Durable Powers of Attorney**
- **Advanced Medical Directives**

Should You Self Insure?

An insurance policy is there to protect your finances. It will help protect you from going bankrupt from an illness, an accident or a natural disaster. The insurance company will help you if you are sued as a result of someone being hurt on your property or an automobile accident.

It is best defense against a tragedy affecting your finances for years to come. It is vital to have most types of insurance (health, home, car and life) in most stages of your life.

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