Insuring for a More Secure Retirement

Targeting Desired Retirement Outcomes

There are four fundamental interconnected financial behaviors that determine one's ability to achieve their targeted retirement outcome: Earning, Spending, Investing and Insuring (ESII).TM As life events shift and alter our course, individuals must continually reprioritize and balance these behaviors while maintaining a focus on their retirement target. Use this framework to develop financial plans and course-correct as lives inevitably change.

In this paper, we discuss the Insuring behavior, and how it serves to protect against life's uncertainties and help keep retirement plans on track.

Of the four financial behaviors, insuring is the least understood and appreciated. But it is critical to helping achieve one's desired retirement outcome. Insurance in its many forms is an expense on which individuals hope never to collect, but when needed, they are glad to have it. The idea is to protect against potential financial impacts that threaten financial wealth well-being and the ability to earn an income. That means paying an affordable rate during the prime working and even retirement years to insure against future unexpected events.

An often overlooked risk-management and wealth-building tool, the kinds of insurance available to individuals and businesses are numerous. Those with the potential to make attaining targeted retirement outcomes easier are:

- **Property.** Inspired by the 1666 Great Fire of London, which destroyed more than 13,000 buildings,* property insurance reimburses for loss or damage to home, its contents, cars, boats, etc., due to fire, theft, weather, flood or other hazards.
- **Liability** insurance is often paired with property insurance and protects by paying for injury or damages the policy owner inadvertently inflicts upon others or their property. For example, if an individual is at fault in an auto accident, liability insurance helps pay for the medical expenses, loss of income and other damages to other parties resulting from the insured's role in the accident.

* Museum of London, "The Great Fire of London and the Invention of Insurance," by James Read, August 21, 2015 and Fire of London Infographic by Sarah Madden, September 2, 2014.

NOT FDIC-INSURED | NOT BANK-GUARANTEED | MAY LOSE VALUE

- **Life** insurance offers protection to people who are financially dependent on an individual. It pays to the named beneficiaries when such individual passes away. It is available in two forms, term and permanent. Term life has a lower cost than permanent. It pays a stated death benefit for the term of policy. When the term is up, the policy has no further value. Permanent life insurance in the form of whole life or universal life policies has higher premiums than term life, because it incorporates an investment component that over time can accumulate "cash value." Unlike term life, permanent life remains "permanent" as long as premiums are paid up. The cash value can be borrowed against, and used as a source of tax-free retirement income. Permanent life can also be used as a vehicle for estate planning to facilitate tax-favorable transfers of assets.
- **Disability** insurance replaces individuals' income when they are injured, sick and unable to work. Coverage is typically designed to cover 60% or 70% of the person's income.
- **Health** insurance pays medical bills when a person becomes injured or ill. Since the Affordable Health Care Act became law in 2012, this type of insurance in America is evolving rapidly. While many more Americans are covered, employer-sponsored plans are passing more of the costs and responsibilities onto employees. This requires individuals to become more knowledgeable about the insurance and the plan options available to them.
- **Long-Term Care (LTC)** insurance picks up where health insurance leaves off. It covers a portion of the ongoing costs of daily nursing and home health care until recovery or death. The costs of LTC can easily range from $100 to $250 per day or more depending on the level of care a person needs and in what part of the country they reside. Without this kind of insurance, those expenses can quickly erode or eliminate what was once considered adequate retirement savings. There are tragic cases in which one spouse requires care, depletes the couple's savings and passes on, leaving the second spouse destitute.
- **Annuity** insurance, which comes in many forms, may protect the principal amount of the investment or guarantee a certain amount of income for a period of time.

When financial situations change, the insurance must change also. The older the person, the more likely LTC insurance is needed. As family and assets grow, life, disability, property and liability insurance become much more important.

Life, disability and annuity insurance provide earnings protection. Health, LTC, property and liability insurance protect savings and investments. All contribute toward protecting the ability to achieve desired retirement outcomes in the face of uncertain life events.

Where and How to Purchase

Life, health and disability insurance are often offered as part of an employer's benefits package. These kinds of policies benefit from group pricing and are often partially subsidized by the employer. As a result, they can be less expensive than when purchased as an individual. However, they lack portability, meaning when employment terminates, so does coverage. The COBRA Act of 1986 requires employers to extend certain policies temporarily after termination at the full cost of the policy — a stop-gap measure to allow individuals time to seek coverage from either a new employer or an individual policy.

All insurance types are available to individuals through insurance companies and the agents who represent them. These policies come in many varieties and can be tailored to individual situations. Insurance firms provide coverage independent of one's employer.

Work with a financial professional to determine what types of insurance are appropriate and to develop a course of action.

Insurance Guidelines for Every Decade

The 20s

- Although the 20s are often the healthiest years, it is a must for people in this age bracket to get health insurance — not only because injury and illness can happen to anybody, but it is also the law.
- Without dependents, the need for life insurance may be low, but if purchased now, annual rates will be lower than if purchased in the future. Funding a permanent life insurance policy has the potential to accumulate significant cash value, which may provide a source of guaranteed tax-free income in retirement.
- A low-cost renter's policy protects larger possessions in case of theft or fire.
- Auto insurance is required by law on all motor vehicles.

The 30s

- Health, auto, homeowner's or renter's insurance remain necessary.
- Individuals starting or supporting a family need life insurance. Term insurance costs less than permanent (whole or universal) insurance, but permanent insurance has long-term benefits worthy of consideration.
- This is also the age to consider disability insurance.

The 40s

- This is a good time to revisit life insurance. Individuals should make sure that their insurance is still adequate to sustain their dependents and determine whether term or permanent insurance is best for their situation. If life insurance is needed, permanent insurance can be a way to also accumulate cash value to be used as potentially tax-free income during retirement.
- LTC insurance at this time becomes increasingly important and is more affordable if purchased now rather than later. LTC policy features are many and varied, so individuals should shop around and seek advice from insurance professionals.
- Liability insurance needs to be sufficient enough to protect assets from lawsuits.
- Property and casualty insurers often offer "umbrella" liability policies that coordinate and exceed the liability coverage of other policies, such as fire, theft, auto, boat, etc.

The 50s

- Individuals who have not yet purchased a LTC policy should reconsider, because the longer they wait the more expensive it becomes.
- Empty nesters with kids out of college should have more disposable income at this point and should consider purchasing a permanent life (whole or universal) policy as a way to accumulate tax-favored cash value in addition to the death benefit.

The 60s

- This is about the last chance to buy LTC.
- Individuals who bought term life insurance earlier are seeing their policies come to term. They will need to assess their family's financial needs and determine if it makes sense to purchase a new term or permanent policy.

The 70s

- This is the time to re-evaluate the need for life insurance and coverage levels. With houses and educations paid off, individuals may not need as much. On the other hand, funding a permanent life insurance policy may be a tax-smart way to pass assets onto kids.
- If individuals have a permanent life policy, they may be able to access the cash value for tax-free income during retirement.

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. Contact your financial advisor to obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, and read it carefully before investing.

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