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Insurance Observations and Recommendations
for
John & Joan Smith

Financial Life Advisors (FLA) has reviewed your current insurance policies and coverage for the insurance policies provided. For this review, major medical; life; disability; homeowners; and automobile coverage policies were evaluated. This review will include our comments on existing coverage as well as potential other coverage that may be of benefit to you.

Major Medical – Aetna Health Insurance Company
PPO 80/70 (group coverage through employer)
A.M. Best Financial Strength: A (Excellent), Outlook: Stable

This medical policy is $200 per month and it provides sufficient coverage for your situation. As long as you use the PPO network doctors, your total annual out of pocket limit is $2,600 plus applicable copays. Like all ACA compliant policies, there are no maximum annual or lifetime policy benefits. These two provisions cover the most important part of major medical insurance, protecting you from catastrophic loss. If you were to incur a major illness, your expenses would be limited to dollar amounts which you could, relatively, easily afford without destroying your savings or future earnings.

Current coverage is affordable since it is highly subsidized by your employer. If still employed at 65, you should immediately enroll in Medicare Part A. There is no cost to you, and this avoids potential penalties for late enrollment. When you retire or otherwise lose group coverage, you should enroll in Part B and Part D. You then can enroll in a Medicare Gap plan or Medicare Advantage.

Medicare Gap plans have the broadest coverage of doctors since a doctor must accept all Medicare or no Medicare patients. Medicare Advantage plans are more like HMOs where there is a reduced network generally for reduced cost.

RECOMMENDATION: Maintain employer coverage, enroll in Medicare Part A at 65, and enroll in Parts B & D when you retire. Evaluate Medicare Gap plans vs. Advantage plan options at that time. Compare COBRA rates vs. ACA Exchange coverage to bridge any gap for Joan prior to 65.

Life Insurance

John Group Term Coverage - Unum Life Insurance Company of America

A.M. Best Financial Strength: A (Excellent), Outlook: Stable

John receives term coverage through his employer as a multiplier of income at a reasonable annual rate. Currently, the coverage is about $300,000 as an employee benefit. The major downside of this coverage is that it is NOT portable and will cease upon employment.

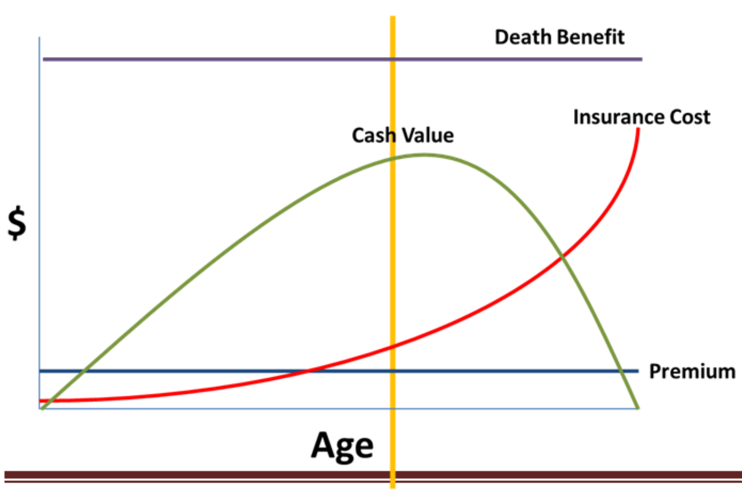
Joan Universal Whole Life Policy - Transamerica Life Insurance Company

A.M. Best Financial Strength: A+ (Superior), Outlook: Stable

Universal life insurance policies are best understood through explanation of how they operate. The insurance company creates a special "savings" account which earns interest based upon the insurance company's investment portfolio. The interest rate is guaranteed to never fall below a certain level, but can earn a higher rate. The policy is currently earning the guaranteed minimum of 4%. In addition to the savings portion, there is an annually renewable term policy which covers the difference between the savings portion and the death benefit. With annual renewable term insurance, the premium goes up each year as mortality risk increases.

A permanent insurance policy is designed to have a level premium. At the beginning of the policy contract, the premium far exceeds the amount needed to cover insurance expense. Over time, the savings portion grows and earns interest. Eventually, the annual insurance costs exceed the level premium, and the savings account is used to cover the additional costs. When first set up, based upon current interest rates and insurance costs, the level premiums should cover the growth of the savings and their subsequent exhaustion at the age of maturity (typically age 100).

If interest rates change or the insurance company changes the cost of the annual renewable term insurance inside the policy, the level premium may have to be adjusted up or down to keep the policy from lapsing (running out of money) or being overfunded (having too much money). Because interest rates do change fairly often in a universal life policy, it is not uncommon for a policy to be partially underfunded or overfunded. The less often the level premium is checked through an updated policy illustration, the more likely the funding will need to change, sometimes dramatically to make sure proper funding is being made.



Death Benefit:	$100,000
2015 Cash Value:	$30,500
Interest Credited:	$1,220
Annual Premiums:	$1,020
Policy Expenses:	($240)
Insurance Expenses:	($1,480)
Projected 2016 Cash Value:	

$31,020

Life insurance is a very important for anyone upon whom others rely for income or financial support. In this case, due to low interest rates, the policy is underfunded and is illustrated to lapse early. To guarantee this policy will last for Joan's whole life, additional funding will be needed.

Joan has concerns that she could be negatively affected by John's early passing, especially if losing his higher Social Security benefits from delayed filing. In financial simulations, a premature death by John before age 80 had significant effect on the financial plan. A 15 year, $250,000 term policy would cover John until age 80 and would financially mitigate the risk of John's early passing on Joan. Alternatively, instead of purchasing insurance, a premature death could lead to some lifestyle cuts for Joan.

RECOMMENDATION: Joan should surrender her life policy and not maintain any life coverage to avoid increasing cost of coverage that is not needed to protect John. John should maintain employment coverage and carefully consider a 15 year level term policy for $250,000. Depending on health, this policy should run approximately $2,000 per year.

Disability Insurance – Unum Life Insurance Company of America

A.M. Best Financial Strength: A (Excellent), Outlook: Stable

Disability coverage is possibly the most important coverage outside of major medical for protection against catastrophic financial loss. This type of insurance is commonly called "income protection" because it insures that if you become disabled, you will still have a stream of income. In the short term, provided you have an emergency fund of cash reserves, disability is not a problem. In the long term, however, being unable to earn an income is a risk. This can be addressed through insurance, as you both have only 1-3 years of future income to protect.

John receives group coverage that would replace 60% of income as an employee benefit. This benefit begins paying after 90 days of disability and continues for no more than two years once you reach 65. Joan does not have disability insurance.

RECOMMENDATION: Since you are so close to retirement and John's higher income has some coverage, no additional coverage is needed.

Long-Term Care Insurance – None Currently

Long-term care (LTC) insurance is a very important consideration for both middle-aged and early retirees. The cost of staying in a nursing home or receiving regular in-home healthcare can be hundreds of dollars per day. With a prolonged incapacity of several years, the costs can quickly eat away at even a sizable nest-egg. The typical horror story is that a retired couple who have saved and planned for retirement is suddenly faced with one of the spouses entering long-term care. The additional cost decimates the retirement portfolio before the passing of the first spouse. The surviving spouse is left destitute, trying to get by on one Social Security check.

LTC insurance has gotten much press, both good and bad. The structure and regulation of these policies have changed rapidly. There are numerous policy structures and riders available for these policies, and many states require special training and licensure to sell them. It is important to work with an agent who specializes in long-term care insurance when choosing a policy of this kind.

The cost of LTC coverage is highly dependent on the age at which the policy is written. The cost of coverage goes up very quickly. Usually, the best time to start to think about LTC is at age 50. By the time age 70 has been reached, it is generally "too late" to look at LTC coverage. Premiums can range from a couple hundred dollars a month to thousands. For couples with little to no assets, LTC doesn't make sense. The cost of the insurance coverage is not insignificant, and if a LTC event occurs, there are not significant assets at risk of being lost. Conversely, if an estate is big enough to survive a $500,000 LTC event, it may make sense to self-insure.

The most important policy provision is an inflation rider. A policy purchased when someone is 50 or 60 will most likely not be enough coverage when they are 80 or 90, unless they have an inflation rider. It is hard to know what nursing care will cost in twenty or thirty years, but it can almost be assured that it will cost more than it does today.

RECOMMENDATION: You should carefully evaluate a long-term care policy. Based upon current assets and goals, a LTC event could seriously damage the financial plan. Minimum 3 year benefit period with a $7,000 monthly benefit plan is suggested.

Automobile Insurance – GEICO County Mutual Insurance Company

A.M. Best Financial Strength: A++ (Superior), Outlook: Stable

Automobile Insurance coverage is generally divided into four types of coverage:

- **Liability-** This coverage protects you both medical and property expenses from damage you create in an accident. You currently have $30k of medical, per person, up to a maximum of $60k and up to $25k for property damage caused by you. It is usually shown as 30/60/25
- **Uninsured/Underinsured (UM/UIM) –** This coverage protects you if the person who hits you is not insured or is underinsured. Your coverage is 30/60/25 for this type of insurance.
- **Collision –** This coverage is what repairs your car if you are responsible for the accident. It is required when you borrow money to purchase a car. You are only responsible for paying the deductible and the insurance company will replace/repair your car for any damage exceeding the deductible. Your current deductible is $250.
- **Comprehensive –** This coverage covers acts of God, vandalism, and other items outside of yours or another's fault. Like collision, you are responsible for the deductible and the insurance covers the remainder of the cost. Your current deductible is $250.

Total Semi-Annual Cost - $850

Liability limits and Uninsured limits are woefully insufficient. Medical costs and property damage can easily exceed these amounts. Generally, these coverage amounts should be raised to the minimum limits to coordinate with an umbrella policy, typically 100/300/100.

If deductibles are raised, the potential liability is increased only by the deductible amount. Insurance companies have found people who choose higher deductible file less claims and also tend to be lower overall risks. There usually is a relatively significant level of savings relative to the additional risk by increasing deductibles.

RECOMMENDATION: Your liability and uninsured/underinsured motorist coverage levels should be 100/300/100 on both automobiles and your comprehensive and collision deductibles should be raised to $1,000.

Homeowners Insurance - GEICO County Mutual Insurance Company

A.M. Best Financial Strength: A++ (Superior), Outlook: Stable

A homeowner's policy covers more than just the house you live in. The following are the different types of coverage in a homeowners policy:

- Dwelling – pays for the actual physical structure to be repaired or replaced ($350,000)
- Other Structures—pays for structures other than your dwelling to be repaired or replaced ($35,000)
- Personal Property – pays for the personal contents of the home ($175,000 or 50%)
- Liability – pays for property damages or injury caused to other people ($100,000)
- Medical Payments – pays for anyone who is not a resident of the home but who is injured on the property ($5,000)
- Loss of Use – pays for temporary relocation and living expenses when your home is damaged or destroyed ($70,000 or 20%)

Total Cost - $1,500 per year

Your deductible for this policy is 1% ($3,500) for wind and hail claim and <1% ($1,000) for all other perils.

Your current liability limit is $100,000. This is insufficient coverage to be coordinated with an umbrella liability policy. Your personal property is insured on a "replacement cost" basis instead of the less expensive "actual cash value" basis. This will ensure you have sufficient funds to replace your current belongings with equivalent new items versus having to find used items.

It is advisable to take an inventory of your personal belongings and then estimate what it would cost to purchase everything brand new. You can generalize with clothing, and dishes, but should be more specific with large dollar items such as computers, televisions, art, and musical instruments. The total dollar value of this inventory should be the minimum contents coverage you select.

RECOMMENDATION: Similar to the recommendation for your automobile coverage, you should raise liability limits to coordinate with an umbrella liability policy; switch to replacement cost on contents coverage; (review personal property values); and raise deductible to 1% or even 2% which should help mitigate the increases due to higher catastrophic coverage limits.

Umbrella Liability – None Currently

Umbrella liability coverage picks up where your automobile and homeowners policies leave off. It can also cover some things that those policies do not cover. Umbrella liability insurance is relatively inexpensive and provides protection from catastrophic situations where you could potentially lose your assets or have future wages garnished in legal proceedings.

RECOMMENDATION: You should have at least 1 million dollars in liability coverage.

Property and Casualty Notes:

It is generally required by insurers who offer an umbrella policy for both automobile and homeowners/renters policies to be through the same insurer as the umbrella policy. This allows the insurance company to coordinate policy benefits and make sure the liability limits are high enough on the other two policies. Keep in mind that if you shop around for rates on these products, and I highly encourage you to do so, you need to make each company aware you want coverage on all three policies. It is hard to tell if you have a good deal unless you shop around periodically. Each insurance company calculates rates differently, and rates can vary widely between companies. You should keep your insurance quotes to major companies with an A.M. Best rating of A+ or higher.

***Maybe define what AM Best Financial Strength and Outlook mean at the beginning?*