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**Insurance Observations and Recommendations**
**for**
**John & Joan Smith**

Financial Life Advisors (FLA) has reviewed your current insurance policy coverage for the insurance policies provided. For this review, health; life; disability; long-term care (LTC); homeowners, auto and umbrella liability policies were evaluated. This review will include our comments on existing coverage as well as potential other coverage.

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

Your share of premium costs for your family group medical insurance is $200 per month ($2,400/year) and provides enough coverage for your situation. This is a highly subsidized rate by your employer and is a valuable part of your compensation package. If you use the Aetna PPO network doctors, your total annual out of pocket limit is $2,600 plus applicable copays. Your policy has no maximum lifetime policy benefit cap. 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.

On a practical day-to-day operations level, there are several policy provisions you should be made aware of:

- On a basic level, you are responsible for 100% of the first $600 per person in medical expenses (deductible). After that, you pay 20% of expenses (coinsurance) until you have paid an additional $2,000 per person, at which point you pay 0% of the expenses.
- Although doctor visits require a copay, if labs or x-rays are required outside of the Doctor's office resulting from your visit, you will be responsible for those expenses with deductible and coinsurance rules applying.
- Prescriptions are on a four-tiered schedule: (Generic $10, Preferred $25, Non-Preferred $50, Specialty 20%). If you have 90-day supply prescriptions written by your Doctor, you can receive the 3-month supply with 2 times the copay. It would be advisable to use generic alternatives where available and to use mail order for regular "maintenance" drugs.

***<u>RECOMMENDATION:</u> This coverage is very good but will not bridge to Medicare. John will be eligible for COBRA continuation coverage for 18 months and Joan for up to 36 months after retirement. In both cases you will likely need to explore the health insurance exchange for individual policies.***

**Term Policies**

**Life Insurance –** Unum Life Insurance Company of America

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

John receives term life coverage through his employer with a death benefit equal to three times salary at a reasonable annual rate. Currently, the coverage for this employee benefit is about $420,000. The policy does have a guaranteed conversion privilege to a permanent form of life insurance at the end of the scheduled term. Usually, conversion is prohibitively expensive and if proper savings are in place at retirement, there is generally no need for life insurance.

In financial simulations, a premature death by John before age 80 had a 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 for Joan.

**Universal Life Policy**

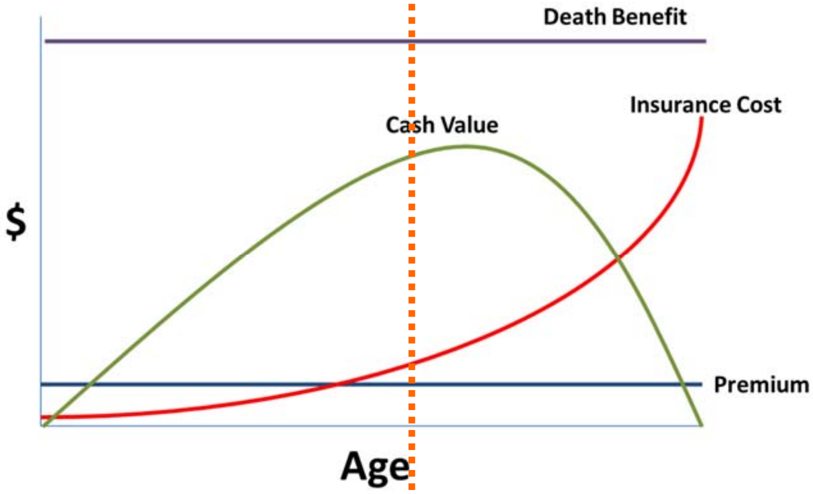
**Life Insurance –** Transamerica Life Insurance Company

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

Joan has a universal life insurance policy. Universal life insurance policies are best understood by explaining how they operate. The insurance company creates a separate "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. This policy currently is 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. In the beginning of the policy contract, the premium far exceeds the amount needed to cover the life insurance expense. Over time that surplus above insurance cost accumulates in the separate account. That account grows and earns interest. Eventually, the annual insurance costs exceed the level premium and the now much larger separate 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 be 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.

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|---|---|
| **Death Benefit:** | **$100,000** |
| **Statement Date** | **12/4/18** |
| | |
| **12/4/17 Cash Value** | **$ 30,500** |
| **+ Premiums** | **$ 1,224** |
| **+ Interest** | **$ 1,020** |
| **- Policy Expenses** | **($ 240)** |
| **- Insurance Expense** | **($ 1,480)** |
| **Current Cash Value** | **$ 31,024** |

The policy is approaching the point cash value will no longer increase even with continued premium payments.

***RECOMMENDATION:* Life insurance is a very important for anyone upon whom others rely for income or support. The plan can survive without this coverage on Joan's life. The universal life policy is not a great investment in and of itself and it has minimal tax consequence to surrender at this point. Joan should surrender her policy.**

***John will retain his life insurance as an employee benefit, but likely should not pursue converting the policy at retirement. Joan would be negatively affected by John's early passing (mostly from lower Social Security benefits). A 15-yr $250k term policy should be considered. Alternatively, instead of purchasing insurance, a premature death would lead to some required lifestyle cuts for Joan. Depending on health, this coverage should be available in a range of $100 - $150 per month.***

**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 are disabled, you still have a stream of income. In the short term, this is not a problem if you have an emergency fund of cash reserves. The long-term prospect of not being able to earn an income is the risk which must be addressed if you have several years of future income to protect. John has 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 if disability begins near age 63 . 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 recommended.**

**Long-Term Care Insurance –** None Currently

Long-term Care (LTC) insurance is a very important consideration for 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 in these policies, and many States require special training and licensure to sell them. It is important to work with a specialist 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 an 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 insurance policy. Based upon current assets and goals, an LTC event could seriously damage your 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 from the damage you create in an accident for both medical and property expenses. 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
    - Cost - $360
- Uninsured/Underinsured (UM/UIM) – This coverage protects you if the person who hits you is not insured or underinsured. Your coverage is 30/60/25 for this type of insurance.
    - Cost - $165

- 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.
    - Cost - $200
- Comprehensive – This coverage covers acts of God, vandalism, and other items. Like collision, you are responsible for the deductible and the insurance covers the remainder of the cost. Your current deductible is $250.
    - Cost - $90
- Personal Injury Protection (PIP)– This coverage is somewhat redundant. In the case of an accident, one of the above-named coverages should cover expenses. PIP pays "without fault". So unless quick cash would be needed, this coverage is not necessary. Your current PIP coverage is $2,500
    - Cost - $20
- Towing- This coverage typically covers problems you may have on the road and may need assistance with such as jump starting your vehicle, towing, labor, and lockout services. You currently have up to $120 limit on each vehicle
    - Cost - $5
- Rental Reimbursement- This coverage will pay for a car rental at $35 per day for a maximum of $1,050 in case your vehicle undergoes repairs due to a claim.
    - Cost - $10

Total Semi-Annual Cost - $850

If deductibles are raised, the potential liability is increased only by the deductible. Insurance companies have found people who choose higher deductibles and are thus willing to accept more risk, also tend to be file fewer claims. There usually is a relatively significant level of savings relative to the additional risk by increasing deductibles. This should only be done if the higher deductible is affordable.

In order to coordinate with umbrella liability policies, liability limits must generally be at a minimum of $300,000 to $500,000. This policy would need to be increased to coordinate with an umbrella liability policy.

***<u>RECOMMENDATION:</u>* Your liability and uninsured/underinsured motorist coverage levels should be 100/300/100 (or whatever is required by your umbrella liability policy) on both automobiles and your comprehensive and collision deductibles should be raised to $1,000.**

***Your policy includes Personal Injury Protection (PIP) ($2,500 per person). This type of coverage is somewhat redundant as is mostly covers medical expenses which would be covered under Liability and Uninsured/Underinsured coverage. The main advantage is it does not require fault assignment and is paid quickly. In your situation, it is probably not necessary.***

**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 your homeowners policy:

- Dwelling – pays for the actual physical structure to be repaired or replaced ($400,000)
- Other Structures-- pays for other structures than your dwelling to be repaired or replaced ($40,000)
- Personal Property – pays for the personal contents of the home ($200,000 or 50%)
- Liability – pays for damages caused to other people for injury or property damage ($100,000)
- Medical Payments – pays for anyone who is not a resident of the home which is injured on the property ($5,000)
- Loss of Use – pays for temporary relocation and living expenses when your home is damaged or destroyed ($80,000 or 20%)

Total Annual Cost - $2,120

Your deductible for this policy is 1% ($4,000) for wind and hail claim and 1% ($4,000) for all other perils.

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, and musical instruments. The total dollar value of this inventory should be the minimum contents coverage you select.

***<u>RECOMMENDATION:</u> 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 2% which should help mitigate the increases due to higher coverage limits.***

***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 an "actual cash value" basis instead of the more comprehensive "replacement cost" basis. The current value of personal contents which depreciate quickly would mean that you would only have a fraction of the coverage required to replace lost contents.***

**Umbrella Liability –** None Currently

Umbrella liability coverage picks up where your automobile and homeowners policies leave off. It also can 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.

***<u>RECOMMENDATION:</u> You should acquire a 1- million- dollar umbrella liability policy.***

*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 we highly encourage you to do so, that 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 like State-Farm, Geico, Progressive, AAA, Allstate, and USAA. The company should have an A.M. Best rating of A+ or higher.*