INSURANCE REVIEW

Insurance needs can change over time as you experience changes in your life. The purpose of this document is to provide a high-level overview of the various types of insurance, potential coverage benefits, when it may be appropriate to purchase or hold coverage, and the characteristics of each type of coverage. It is important that you review your insurance needs at least annually. As your financial advisor, JNBA can be a vital partner in helping guide you through some of these items. If you have any questions on the following, please contact your Senior Advisor or independent insurance agent.

TYPES OF INSURANCE

- ☐ Life
- ☐ Disability
- ☐ Property & Casualty
- ☐ Health
- ☐ Long-Term Care

LIFE INSURANCE

- ☐ What is life insurance?
  - Life insurance is an agreement between you (the insured) and an insurer. Under the terms of a life insurance policy, the insurer promises to pay a certain sum to a person you choose (your beneficiary) upon your death, in exchange for your premium payments.
- ☐ What are the potential benefits of life insurance?
  - One of the most common reasons for buying life insurance is to replace the loss of income that would occur in the event of your death.
  - Life insurance can be used to pay off debt such as mortgages, car loans, and credit card debt, leaving other remaining assets intact for your family.
  - Life insurance proceeds can also be used to pay for final expenses and estate taxes.
- ☐ When should you purchase/hold life insurance?
  - Your life insurance needs will depend on a number of factors, including if you are married, the size of your family, the nature of your financial obligations, your life stage, and your goals.
  - Items to consider:
    - o What immediate financial expenses (e.g., debt repayment, funeral expenses) would your family face upon your death?
    - o How much of your salary is devoted to current expenses and future needs?
    - o How long would your dependents need support if you were to die tomorrow?
    - o How much money would you want to leave for special situations upon your death, such as funding your children's education, gifts to charities, or an inheritance for your children?
    - o How has your life changed in the past year or so including: birth of child, divorce, marriage, additional liabilities, new job? Since your needs may change over time, you'll need to continually re-evaluate your need for coverage.

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LIFE INSURANCE

- What are the different types of life insurance?
  - Term:
    - Term insurance is typically the least expensive way to purchase a substantial death benefit.
    - Term policies provide life insurance protection for a specific period of time (subject to the claims-paying ability of the insurer). If you die during the coverage period, your beneficiary receives the policy death benefit. If you live to the end of the term, the policy simply terminates, unless it automatically renews for another period.
    - Term policies are available for a fixed period of time (e.g., 10, 15, 20, or 30 years).
    - Types of term coverage:
      - Group term: Provided or purchased through an employer. Usually ends upon the termination of employment.
      - Private term: Purchased outside of one's employment. Private term policies can be purchased through a licensed insurance agent.
  - Permanent/Cash Value:
    - With permanent insurance you agree to pay an insurance company a set premium for a set amount of insurance coverage for your lifetime.
    - Permanent insurance is life insurance that in theory does not expire. It combines a death benefit with a savings portion.
    - Premium payments are greater than necessary to provide the life insurance benefit in the early years of the policy, so that a reserve can be accumulated to make up the shortfall in premiums necessary to provide the insurance in the later years.
    - Should the policy owner discontinue the policy, this reserve, known as the cash value, is returned to the policy owner, subject to applicable surrender or early withdrawal charges.
    - Most common types of permanent coverage:
      - Whole life: Typically the most common type of permanent life insurance. You generally make level (equal) premium payments for life, and the death benefit and minimum cash value are predetermined and guaranteed.
      - Universal life: Has more flexibility than a whole life policy. You may pay premiums at any time, in any amount (subject to certain limits), as long as policy expenses and the cost of insurance coverage are met. The amount of insurance coverage can be changed, and the cash value will grow at a declared interest rate, which may vary over time.
      - Variable life: Similar to whole life, you pay a level premium for life. However, the death benefit and cash value fluctuate depending on the performance of investments in what are known as subaccounts. A subaccount is a pool of investor funds professionally managed to pursue a stated investment objective. The policy owner selects the subaccounts in which the cash value should be invested.

DISABILITY INSURANCE

- What is disability insurance?
  - Disability insurance is a form of insurance coverage that protects against a loss of income due to the inability to complete the core functions of one's own job or occupation.
- What are the potential benefits of disability insurance?
  - According to the Insurance Information Institute, it is estimated that 43% of 40-year-olds will suffer a long-term disability lasting 90 days or longer by the time they reach age 65.

- Disability insurance provides income replacement that, if not sufficiently covered, could have a significant impact on household finances and retirement planning.

☐ When should you purchase/hold disability insurance?

- Items to consider:
  - If you suffered an injury or illness and could not work for days, months or even years:
    - If you're single, do you have other means of support?
    - If you're married, you may be able to rely on your spouse for income, but you probably also have many financial obligations. Could your spouse's income support your entire family?
  - Does your employer offer disability insurance?
  - Is your current coverage sufficient?
  - Are you possibly over insured? Typically maximum eligible benefits cover up to 60 to 65% of gross compensation.
  - Can you afford to self-insure? Understand the cost vs. benefit.

☐ What are the different types of disability insurance?

- Short-term disability: Pays a certain percentage of an employee's weekly salary for a specified amount of time, typically 10 to 26 weeks, if he or she is ill or injured and cannot perform the duties of his or her job. Short-term disability is typically employer-paid but also can be purchased by the employee.
- Long-term disability: Picks up after short-term disability insurance is finished. It pays a percentage of monthly salary for the period of time specified in the policy, usually 5 to 10 years, or to age 65.
- Disability policies can be purchased through:
  - <u>Group disability plans</u>: The most common kind of disability insurance, group plans, are typically offered through your employer. Group plans typically do not replace your full paycheck, with a reimbursement rate of about 2/3 of your salary being typical. Furthermore, group plans often place a monthly or yearly cap on the dollar amount you can be paid or set a maximum timeframe for benefits which could be as little as two years. It is important to read the fine print on group plans to understand your coverage.
  - <u>Individual disability plans</u>: If your employer does not offer a group plan or you are not satisfied with what you are offered, you can shop around as an individual. Keep in mind that your price is based on your unique situation and needs. Individual plans are generally cheaper if you are young and healthy and costly if you are older. Individual polices have more options and portability to keep the disability coverage in place if you change jobs.
  - <u>Supplemental disability plans</u>: Supplemental disability coverage is an additional layer to help pay for medical or living expenses that may not be covered by a long-term plan. For instance, if you have an employer-sponsored group plan that pays just 50% of your paycheck, for a modest monthly fee you may be able to add a supplemental policy to bring that amount up to the 2/3 of your salary level.
- Taxation of disability policy benefits:
  - <u>Employer-paid</u> policies are typically a pre-tax benefit. If you receive disability benefits from an employer-paid policy, the benefits you receive are taxable to you, unless your employer included the premium as part of your gross income.
  - <u>Individually-paid</u> policies are typically a post-tax benefit. If you pay for your policy premiums with after-tax dollars, the benefits you receive are not taxable.

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PROPERTY & CASUALTY

- ☐ What is property and casualty insurance?
  - Property and casualty insurance is liability and loss protection for personal property and business interests.
  - Property insurance covers a variety of risks associated with property, including real estate and personal property. Generally, casualty insurance covers risks arising out of actions toward others.
- ☐ What are the potential benefits of property and casualty insurance?
  - It allows individuals and businesses to exchange the risk of a large loss for the certainty of smaller periodic payments known as premiums. For a set premium, an insurance company assumes the risk of a large loss.
  - Property and casualty insurance also requires you pay a deductible. A deductible is the amount of expense you agree to pay for a claim before an insurance policy starts to pay.
- ☐ When should you purchase/hold property and casualty insurance?
  - Some things to consider when evaluating your needs:
    - Are you adequately insured to cover current replacement cost of your residence and contents?
    - Did you acquire any new valuables over the past year?
    - Confirm value and limits of insurance.
    - Consider paying out of pocket for small claims.
    - Consider increasing your deductible.
- ☐ What are the different types of property and casualty insurance?
  - The most common types include:
    - <u>Homeowners</u>:
      - Provides financial protection against disasters.
      - A standard homeowner's policy insures the structure of your home as well as the personal property within it. It covers physical damage to your property as well as the legal responsibility for any injuries to others suffered on your property.
      - A homeowner's policy covers damage caused by most disasters. There are a few exceptions. You must purchase specific policies for damage caused by floods and earthquakes.
      - To save on premium dollars, consider selecting a higher deductible (amount you would pay out-of-pocket per loss). Homeowners may select deductibles of $2,500 or higher, as too many small claims can cause your premium to increase or your insurance to be dropped by your current insurance company.
      - Riders can be added to your homeowner's insurance for:
        - Recreational vehicles (boat, etc.)
        - Jewelry
        - Collectibles
    - <u>Umbrella (excess liability)</u>:
      - If you are sued for some type of accident, your standard homeowner's or auto policy will provide you with some liability coverage up to a limit set in the policy. It's extremely important to have an extra layer of liability protection provided by a personal umbrella liability policy.

PROPERTY & CASUALTY

- An umbrella policy takes effect when you reach the limit on the underlying liability coverage in your homeowners or auto policy. You can buy a $1 million personal umbrella liability policy for a few hundred dollars in premium per year. The cost per million typically decreases for additional million dollar increments of coverage.
- It is highly recommended to buy umbrella coverage at least equal to your net worth. Most insurers will require a minimum of $250,000 of liability insurance on your auto policy and $300,000 of liability insurance on your homeowner's policy before providing an umbrella liability policy for $1 million of additional coverage.
  - Nationally, close to half of drivers are operating with either no insurance or state minimum limits. We recommend adding additional un/underinsured liability coverage to your policy if offered.
- Umbrella liability coverage is typically purchased from the same insurer that provides your automobile insurance.

- Auto:
  - Auto insurance protects you against a financial loss should you have an accident. You agree to pay a premium and the insurance company agrees to pay your losses as defined in your policy.
  - Auto insurance includes the following types of coverage:
    - Property coverage: Pays for damage to or theft of your car.
    - Liability coverage: Pays for your legal responsibility to others for bodily injury or property damage.
    - Medical coverage: Pays for the cost of treating injuries suffered in an accident, rehabilitation and sometimes lost wages and funeral expenses.
  - In order to save some premium dollars on automobile insurance, consider selecting the highest deductible you might feel comfortable paying out-of-pocket for a claim. A common deductible is around $1,000.

HEALTH INSURANCE

- ☐ What is health insurance?
  - Health insurance is a contract between an insurance company and individual or employer covering an individual. The insured individual's obligations may be as follows:
    - Premium: The amount the individual or employer pays to purchase the coverage.
    - Deductible: The amount an individual must pay out-of-pocket before the insurance company starts to cover expenses.
    - Co-payment: The amount of expense an individual must pay out-of-pocket for a specific service such as a doctor visit or for a prescription.
- ☐ What are the potential benefits of health insurance?
  - Health insurance covers the risk of incurring large medical expenses.
  - A health insurance policy is not meant to cover all of your health needs, but instead to cover catastrophic health insurance costs.
  - We recommend that you discuss your needs with a qualified health insurance representative.
- ☐ When should you purchase/hold health insurance?
  - In general:
    - Individual or employer provided plans during your working years.
    - Medicare Supplement Plan and Medicare Part D coverage in retirement, assuming you are covered by Medicare.

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HEALTH INSURANCE

- Some things to consider when evaluating your needs:
  - Prescription drug needs and available coverage.
  - Vision/dental needs and available coverage.
  - Increasing or decreasing deductible, and the impact that has on premium payments.
  - For a working couple with employer sponsored plans, evaluate coverage on each to determine which plan (or parts of a plan) may make sense for the household.
  - Are you able to fund a Health Savings Account or Flexible Spending Account?

☐ What are the different types of health insurance?

- Employer-provided health insurance plans:
  - Cafeteria and Flexible Spending Plan: Employer allows employee to choose between different insurance plans to meet their current needs.
  - Health Savings Account (HSA): A recent alternative to traditional health plans. It is a savings account that allows an employee to save for his or her health care expenses pre-tax. You own and control your HSA and you decide how you want to spend your healthcare dollars. An HSA is written in conjunction with a high deductible health plan.
  - High Deductible Health Plan: A less expensive health plan that kicks in after a certain deductible is met. Prior to meeting the deductible, health care expenses can be met with the funds from a Health Savings Account (HSA).
- Individual Policies: If you are not satisfied with your employer provided health insurance policy or you are not covered by an employer health insurance policy, you can purchase an individual or family policy in the open market.
- Medicare Supplement Plans: Offered by private companies, can help pay some of the health care costs not covered by Medicare (i.e., co-payments, co-insurance, deductibles, etc.). Also referred to as Medigap plans, some policies offer coverage for services such as medical care when you travel outside the U.S. Medigap policies generally don't cover long-term care insurance, vision, or dental care.

LONG-TERM CARE INSURANCE

☐ What is long-term care (LTC) insurance?

- Long-term care is care that you need if you are unable to perform the basic activities of daily living (ADLs) such as dressing, bathing, eating, toileting, walking, and transferring.
- In addition, Alzheimer's or dementia patients can require specialized long-term care.
- Key features include:
  - Benefit amount: The daily benefit amount is the maximum your policy will pay for your care each day, generally ranging from $50 to $350 per day.
  - Benefit period: The length of time your policy will pay benefits (i.e., 2 years, 4 years, lifetime).
  - Elimination period: The number of days you must pay for your own care before the policy begins paying benefits (i.e., 20 days, 90 days).
  - Types of facilities included: Many policies cover care in a variety of settings including your own home, assisted living facilities, adult day care centers, and nursing homes.
  - Inflation protection: With inflation protection, your benefit will increase by a certain percentage each year. It's an optional feature available at an additional cost, enabling your coverage to keep pace with rising prices.

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LONG-TERM CARE INSURANCE

- What are the potential benefits of long-term care insurance?
  - Contrary to what many people may believe, Medicare and private health insurance programs do not pay for the majority of LTC services that most people need.
  - In Minnesota, the average cost of care is between $70,000 to $75,000 per year.
  - Long-term care insurance is insurance you can purchase to fill this void.
- When should you purchase/hold long-term care insurance?
  - There are a number of reasons people plan for long-term care. Some include:
    - They would like to stay in their home longer, even if they become unable to care for themselves.
    - To help protect their investment and retirement assets.
    - They do not want to burden their children.
    - A desire to leave more of their assets to heirs and selected charities.
  - If you expect to have very little financial resources when you might need long-term care services, you might qualify for Medicaid, a government program that pays for medical and long-term care expenses for people without the means to pay. If you are someone in this situation, you probably may not have the financial resources to buy long-term care insurance. On the other hand, if you to have significant monetary assets when you need long-term care services, you also likely won't need to purchase long-term care insurance as you can potentially pay for long-term care costs out-of-pocket. People that fall in-between these two categories should consider purchasing a long-term care insurance policy.
    - Long-term care insurance can be expensive. Typically, people start looking at long-term care insurance coverage in their later 50s to early 60s. The younger and healthier you are when you purchase long-term care insurance, the lower the premium cost. If you have already had a significant health issue, it is possible that an insurer can deny you for long-term coverage.
- What are the different types of long-term care insurance?
  - Private:
    - Monthly, quarterly, or annual premium for as long as you own the policy (Please note: some products come with a "waiver of premium" rider whereby premium payments are waived while on claim).
    - "X"-Pay. Some insurance companies offer the ability to prepay coverage over a certain number ("X") of years and then the policy is considered paid-up. Five-Pay and Ten-Pay are the most common.
  - Employer Group:
    - Employee-paid premium
    - Employer-paid premium
    - These polices are usually portable for continued coverage if you so choose after retirement.
  - Combination Products:
    - Life insurance with a long-term care rider
    - Fixed annuity with a long-term care component

Resource: Insurance Information Institute, (2015). Retrieved from: www.iii.org.