Capital Advantage, Inc.

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How to Buy Life Insurance

By the Financial Planning Association

Life insurance is a product that benefits families in the event of a wage earners untimely death. If you are married with children and they depend on your income and you don't have adequate financial resources, then life insurance is a useful tool to help pay for living expenses in the event of your demise. Single people without dependents typically don't need the same amount of life insurance because they don't have the same financial responsibilities.

Most financial planners will tell you that life insurance is not a replacement for savings or long term investing but it's an additional cushion. Depending on your financial situation, life insurance and its ancillary products can have some attractive tax characteristics as well.

Who needs life insurance: People with dependents, either children or friends or family members with special needs; with a nonworking spouse or one with an income substantially lower than yours is left with a mortgage where with one income could be overwhelming to pay.

How much is necessary: Optimally, the right amount of life insurance allows your survivors to invest the insurance proceeds and then draw down the account over time in a way that matches the income you would provide if you were still around. You need to figure far more than a family's basic living expenses adjusted for inflation. Also consider:

- Educational expenses for each child from grade school to college
- Money to cover special health expenses for family members
- Funds for child care if the surviving spouse needs to keep working
- Emergency funds for your survivors to keep in reserve
- Paying off mortgages and other debt

Types of life insurance:

<u>There are six basic types of life insurance:</u>

- ***Term:*** Term life insurance is the simplest and least expensive type of life insurance because upon a death, it pays a benefit only during the term of the policy, which is usually from 1-30 years. There are two kinds of term life insurance: <u>Level term</u> means that the death benefit remains the same throughout the duration of the policy, and <u>decreasing term</u> means that the death benefit drops in one-year increments over the duration of the policy.

- ***Permanent Life:*** Permanent insurance is a level premium policy and pays a static benefit whenever you die (as long as the policy remains in force). For this guaranteed benefit, for example, Whole Life Insurance is the more expensive choice because it front-loads its costs into the early premium years of the policy so it can invest the money to pay for death benefits at the end of several years or decades. At a certain point, the policy owner will pay in enough where he or she will start accruing cash value on that money which can be withdrawn if the policy owner decides to cancel the coverage.

<u>There are four types of permanent insurance</u>:

- ***Whole or Ordinary Life**:* This is the most common type of permanent insurance policy, offering a death benefit with a savings account (cash value policy). You agree 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 the policy cash value.

- ***Universal Life:*** This variation offers more flexibility, such as the possibility of increasing the death benefit if you pass a medical exam. The savings product attached to this kind of account generally earns a money market interest rate and after you start accumulating money in this account you'll generally have the option of altering your premium payments. This helps if you lose your job or have some other financial misfortune.

- ***Variable Life:*** This policy lets you invest your cash value in stocks, bonds and money market mutual funds which is good if those investments go up. If they go down, your cash value and death benefit will shrink, but you need to make sure there is a guarantee that your death benefit won't fall below a certain level. This type of policy can be fairly risky for ordinary consumers.

- ***Variable-Universal Life:*** This choice is a hybrid policy that combines Universal Life and Variable Life – VUL allows you the flexibility of premium payments with a more aggressive investment scenario for the cash value of the policy.

Life insurance proceeds don't generally go to Uncle Sam's collection plate, which makes life insurance an attractive purchase for many individuals hoping to maximize the amount to give to heirs. Yet life insurance can also be purchased in a way to give the living policyholder tax-free income during retirement. Since we're talking about estate issues here, getting proper advice is critically important. The federal government's current estate tax ceiling is set to expire in 2010, and this fact alone could affect the attractiveness of this strategy for your situation.

If you own life insurance and you are not sure if you have enough insurance please call your agent or insurance provider for a check up. If you don't know if you have the right type of life insurance or if you think you need life insurance, call one of our advisors - John, Donna or Gary, to further discuss your situation. We also can refer you to several independent life insurance professionals should you need additional assistance.

How to Takeover an Aging Parent's Finances
By the Financial Planning Association

Like many difficult situations with people we love, planning to take over an older relative's finances is best done in happier times, when both sides are healthy and various options can be considered. Unfortunately, events can sometimes intervene – death, illness or natural disasters can make an elder's need for assistance a critical matter.

Once stricken, older relatives may be unable to understand questions or express their wishes in proper detail. If there is no plan, family members grasp at responsibilities – or shirk them – without any idea of what the older relative would really want.

What's critical to understand is that such talks should go far beyond money. They need to be discussions about independence and basic preferences for the way an individual wants to live or die. Demographers believe that with the rising number of single Americans – those divorced or never married – these conversations will become increasingly complicated as they fall to nieces and nephews, younger friends or designated representatives.

Want to avoid a worst-case scenario? Start the conversation now. Here are some ideas:

Decide what's important to talk about first: Maybe this conversation isn't just about where the will or health care powers of attorney are located. Maybe this conversation is about you noticing that a parent or loved one is moving slower, is more forgetful, is clearly looking like their health has taken a turn for the worse – and maybe that's why you want to know where the will is. Jumping into money issues first is usually a mistake. Deal with immediate health and lifestyle issues first.

Explain why you want to talk about finances: In some families, having a successful financial discussion means several attempts and some frustration. Don't allow yourself to become angry or frustrated – just keep starting the conversation until it catches on. It might make sense to say something like, "You've always been so independent, Mom. I just want you to give us the right instructions so we know exactly what you want."

Prepare your questions in advance: When a parent or relative is unconscious or unresponsive, the younger relative is immediately in the drivers' seat. That's why it's critical to make a list of questions for the elderly relative to answer in detail. The basics: Where are the important papers? How are household expenses paid? Who are the doctors and specialists? What medicines are being taken? Is there a will or Trust; is there an advanced directive and a funeral plan (and money or insurance proceeds to pay for it)? There may be dozens more questions beyond these based on your family's personal circumstances. But in creating this list, ask yourself: *"What do I need to know if this person suddenly becomes sick or dies?"*

Offer to get some qualified advice: If you don't fully understand your relative's financial affairs, consider talking to your financial advisor at Capital Advantage or consult with a qualified attorney who specializes in Elder Care. An attorney can offer specific suggestions on critical legal documents that should be in place and ways to make sure accounts to pay medical and household bills are accessible to both the elder relative and the designated friend or relative who will hold power of attorney.

Plan a care giving strategy together: You should discuss the relative's preferences and trigger points for various stages of heath care. An individual always wants to stay in his or her home, but you should have an honest discussion about how much you can do at home as a caregiver and whether various services (home health aide, geriatric care manager, assisted living) should be introduced at various stages. Talking through what a parent will be able to live with at various health stages – and putting that information in writing – will save plenty of doubt and bitterness later.

Discuss what should happen with the home: If an elderly relative becomes sick and irreversibly incapacitated, the equity in his or her home may come under consideration as a resource to pay uncovered medical or household maintenance. Since the home is both a major asset and an emotional focal point, it's best to get good advice and spell out specifically what the elderly relative wants done with his property and under what conditions.

Make sure everyone knows the plan: Once you settle on a strategy, make sure all family and friends understand the plan and their assignments.

If you or someone you know needs to develop a strategy to care for an elderly parent or relative, Capital Advantage, Inc. has access to qualified estate and elder care attorneys. Please call our office at (925) 299-1500 if you are interested, or would like to schedule a review of your investment strategy and/or financial plan. If you are not a client of Capital Advantage, Inc., we offer free no obligation consultations.