

# INSURANCE AND ESTATE PLANNING BASICS

Jocelyn Black, CRC®

Strategy Financial Group

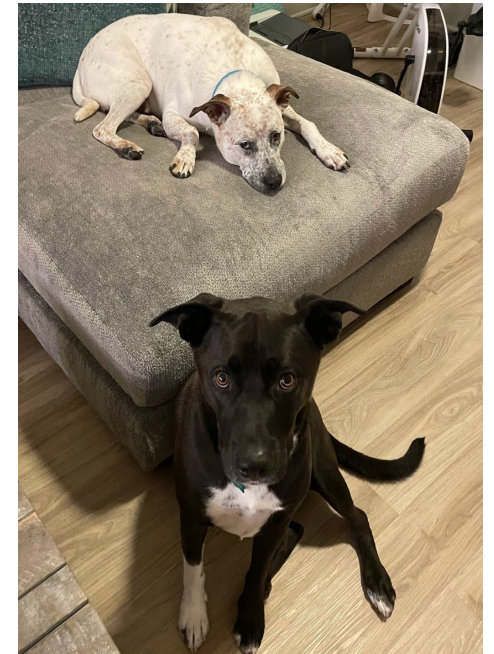
[www.strategyfinancialgroup.com](http://www.strategyfinancialgroup.com)

602-343-9301

# About Your Presenter: Jocelyn Black



- Philadelphia native, mom of two kids and two rescued mutts
- Former State of New Mexico's 529 college savings & Nationwide 457(b) deferred compensation plan rep
- Financial Advisor with Phoenix-based, independent financial planning firm, Strategy Financial Group, with office in Albuquerque
- Fiduciary duty
- Certified Retirement Counselor®
- 19 years of experience in financial services
- Passionate about financial education



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# OUTLINE

- Insurance realities
- Life insurance basics
- Disability insurance
- Annuity basics
- Other insurance FYI
- Wills
- Trusts



# *Importance of Insurance in Financial Planning*



# INSURANCE REALITIES

- Life insurance
  - Everyone will die someday—one of life's few certainties
  - Unexpected deaths cause significant financial chaos in a household
  - In 2021, 52% of Americans are insured, down from 63% in 2011, with 1 in 3 families remaining uninsured
  - 66% of Americans, or 2 in 3 individuals, buy life insurance to transfer wealth to other generations
  - 80% of consumers say buying life insurance is a relevant financial planning topic for their household
  - 50% of all people searching for life insurance tend to value convenience, speed, and simplicity in underwriting over all other factors

# INSURANCE REALITIES

- Disability insurance
  - Most workers do not carry any form of disability insurance
  - However, 1 in 4 20-year-olds today will become disabled before retirement
  - In any given year, you are more likely to become disabled than to die
  - Accidents are NOT usually the culprit. Back injuries, cancer, heart disease and other chronic illnesses cause the majority of long-term absences from work
  - Approximately 5.6% of workers will experience a short-term disability due to injury, illness, or pregnancy each year
  - Not having a disability plan –not necessarily insurance – can again put you and your family at grave financial risk
  - Nobody plans on being disabled.....

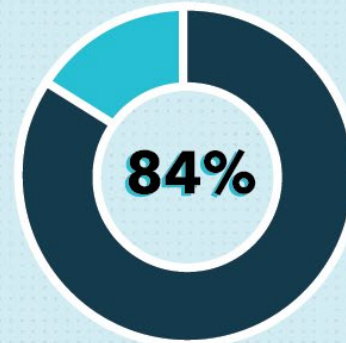
# LIFE INSURANCE BASICS



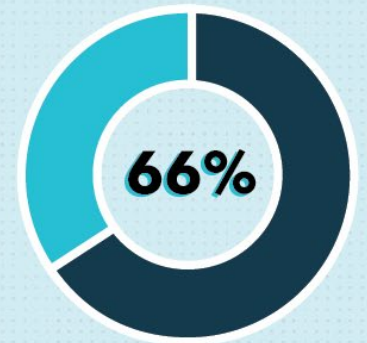
# Most Common Reasons for Buying Life Insurance:

Source: Policy Genius

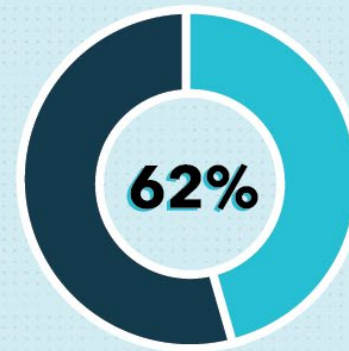
## LIFE INSURANCE PURPOSES



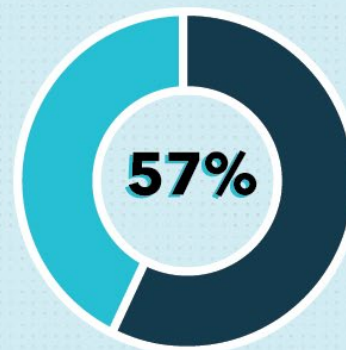
Burial/final expenses



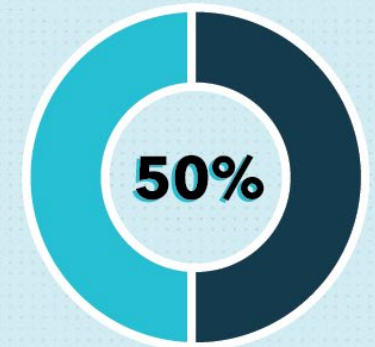
Wealth transfer



Income replacement

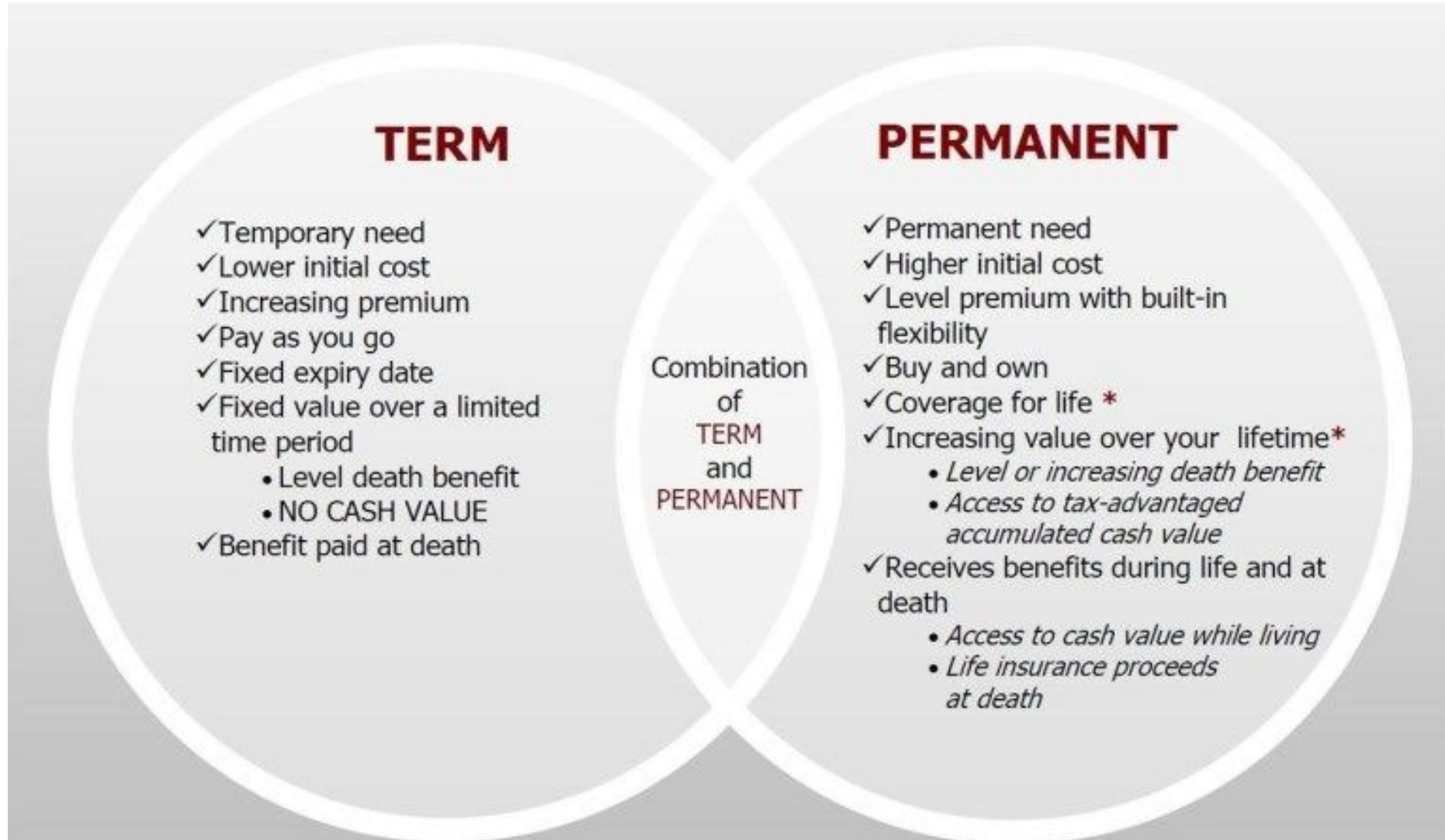


Supplement retirement income



Pay off mortgage

# TWO MAIN TYPES:



\* As long as premiums continue to be paid or there is cash value in the policy

# TAKE ADVANTAGE OF YOUR CABQ OPTIONS

## Basic Life Insurance Plan Benefits

The City provides a term life insurance policy at no cost to you.

If you are an eligible Regular full-time or part-time employee, you are covered by The Mutual of Omaha basic life and accidental death and dismemberment (AD&D) policy.

The plan will pay your designated beneficiary a benefit of 1.4 times your basic yearly compensation, rounded to the next higher \$1,000. Regardless of the amount of your basic yearly compensation, the benefit will not be less than \$25,000 or greater than \$50,000.

## Voluntary Life Benefits

**Information about voluntary, spouse and dependent life benefits for City of Albuquerque employees and participating entities.**

If you are an eligible Regular full-time or part-time employee, you have the option to select additional life insurance for yourself, and the ability to select coverage for your spouse and dependent children. Children include those, up to age 26.

## Plan Benefits

- [Benefit at a glance](#)
- All employees can enroll in Voluntary Life up to \$350,000 guaranteed issue, or 7x annual salary, whichever is less
- Employees can increase current voluntary life benefit by \$50,000 up to the guaranteed issue amount of \$350,000, or 7x annual salary, whichever is less (no medical underwriting requirements)

# BUYING LIFE INSURANCE

- Things that make your insurance more expensive or unavailable
  - Being older
  - Smoking (typically need to quit for 12-months to qualify as nontobacco)
  - Family history of heart disease, cancer, stroke
  - Risky hobbies (scuba diving, flying planes, racing cars, driving motorcycles, etc.)
  - Chronic conditions such as diabetes, rheumatoid arthritis
- [DO YOUR RESEARCH](#) to know how much you need
- Be in agreement with your spouse or partner
- Contact your property and casualty provider to see if you can get a better deal through multi-line discounts
- [Shop around for multiple quotes](#)

# DISABILITY INSURANCE

# DISABILITY INSURANCE

- For many, this is prohibitively expensive to buy outside of your employer
- Know your employer's plan:
  - --% of your salary up to \$X,000/month
  - Will be offset by any Social Security disability benefit that you get
  - If your employer taxes the premium, you will get the benefit free of taxes; if not, it is taxable income
  - Know what the exclusions are – often mental health and substance abuse issues have limits or are completely excluded



# DISABILITY BENEFITS FROM CABQ

## What is a disability?

Due to accidental bodily injury, sickness, mental illness, substance abuse or pregnancy you are unable to perform the essential duties of your occupation and as a result you are earning less than 20% of your pre-disability weekly earnings; Or you are able to perform some, but not all of the essential duties, and as a result you are earning less than 80% of your pre-disability weekly earnings.

## Waiting Period

Short-Term Disability – Once you are approved, you will be eligible to collect your weekly disability insurance benefit starting on the 30th calendar day after your accident or illness.

Long-Term Disability – You must be disabled for at least 180 calendar days before you can receive your monthly disability insurance benefit.

## How Long Will My Benefits Continue?

- [Short-Term Disability](#) – Up to 22 weeks, as long as you remain disabled.
- [Long-Term Disability](#) – For as long as you remain disabled, or until you reach your Social Security Normal Retirement Age.

## Enrollment Period

Your initial enrollment period is within 31 days of your new hire date. If you do not enroll at that time, then you may apply during the City of Albuquerque's Annual Open Enrollment period. This is generally in May or June of each year. If you apply during Open Enrollment, you may be subject to underwriting and qualify with Evidence of Insurability. You will be contacted by the carrier to process Evidence of Insurability.

# DISABILITY PLAN

- You should have a plan for what happens if you or your partner become unable to work
- Understand how this would impact your finances and how you can best prepare
- Discuss your plan with those involved – make sure the family all understands the plan and who will play a role in the plan
- Anyone can become ill or injured
- Consider your plan for a child becoming sick as well – this can also cause time away from work and will not be covered by any form of disability insurance
- BUILD A 3-MONTH EMERGENCY FUND ASAP



# ANNUITY BASICS

# Annuities

- Annuities are sold by insurance companies and provide a stream of income in exchange for premium investments
- Popular with retirees or pre-retirees looking to replace or supplement other fixed income sources in retirement (Social Security, employer pensions)
- Generally, not recommended for investors over 80
- Can opt for guaranteed income (fixed annuity) or fluctuating income based on investment performance (variable annuity)
- Notoriously complex, restrictive and can be expensive
- Licensed insurance agents who sell annuities can make commissions paid by the insurance companies (usually a % of initial deposit) or charge a recurring fee based on account balance

# Annuities (cont.)

- Add-on features can include spousal lifetime income riders, cost of living adjustments, long-term care benefits and enhanced death benefits
- Surrender fees for a certain term are typical (2-10+ years) and could be 10+% of the initial deposit within the first year it is effective
  - For each successive year of the contract, the surrender fee typically drops
  - “Free withdrawals” are typical during surrender period (5-10% of account value)
  - This is a strategy for the insurance companies to manage risk
- Average income payment on a \$100,000 annuity is between \$448-\$1,524/month
  - Payment amounts are based on the age at annuity purchase, the length of time before taking income and design of annuity

# ANNUITY TYPES

## Types of Annuities

**FIXED**

Pays at a  
fixed rate

**INDEXED**

Pays based  
on the value of  
an external index

**VARIABLE**

You actually own  
investments inside  
the account

# INCOME OPTION DETAILS

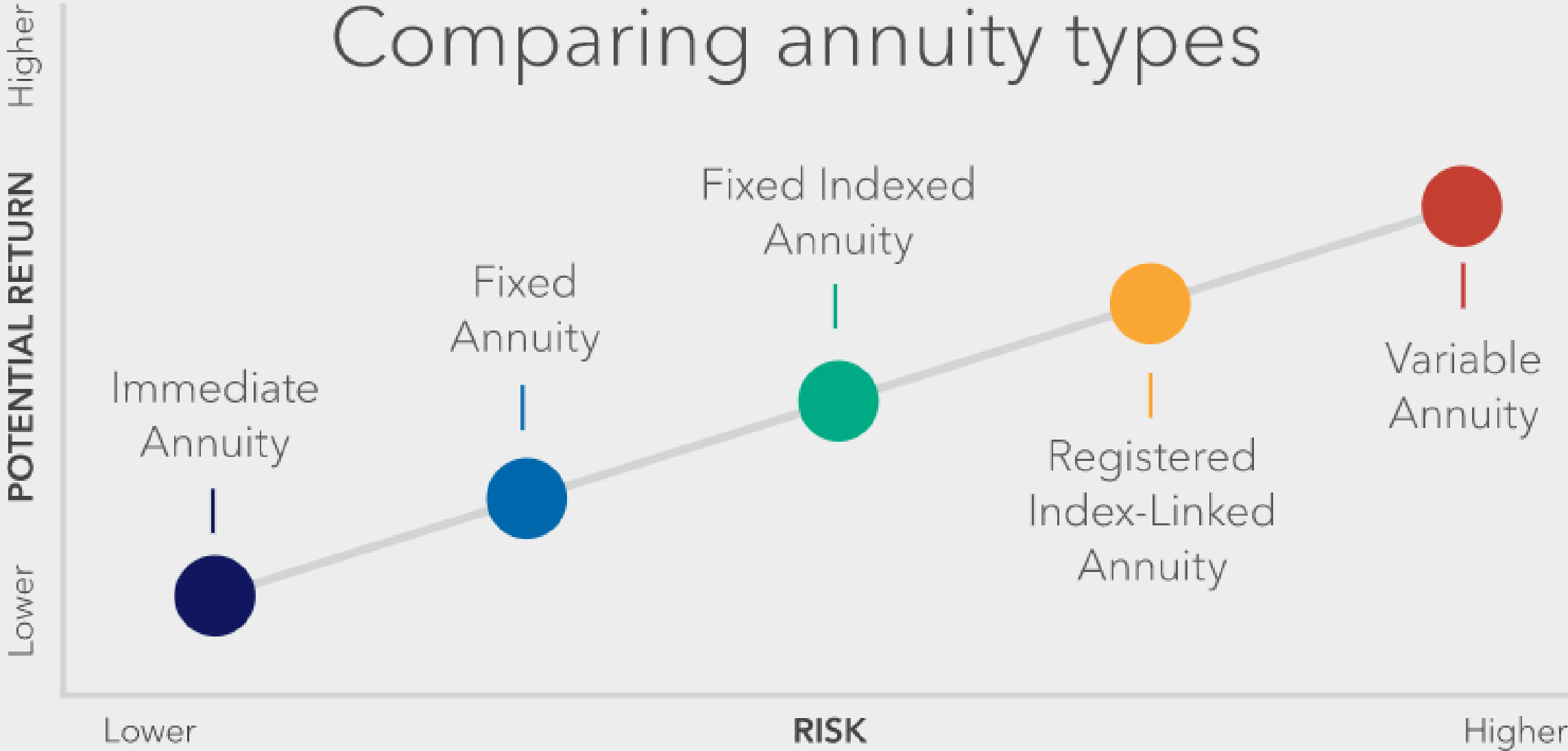
- Immediate

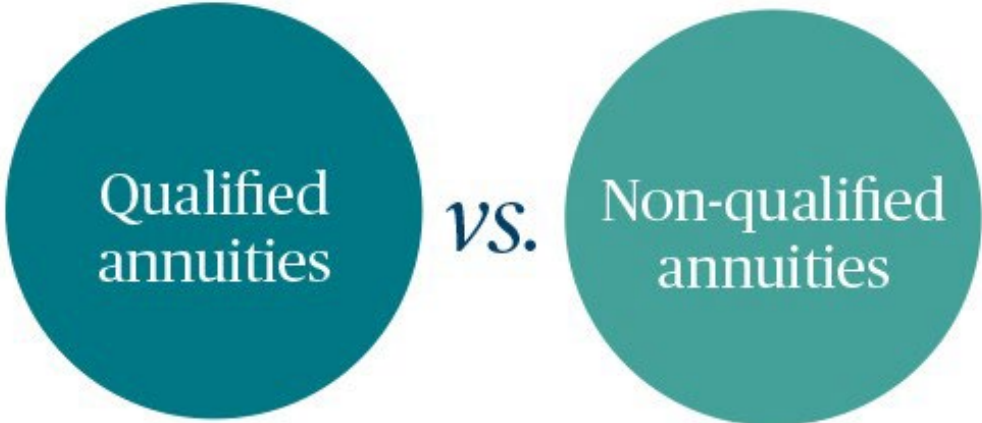
- A lump sum of cash is given to an insurance company in return for regular income payments for life or a certain period of time
- Typically purchased by retirees
- Can cover a gap in income needed for retirement expenses
- Payments can be fixed or variable
- Deferred annuities become immediate upon “annuitization” (when payments begin)

- Deferred

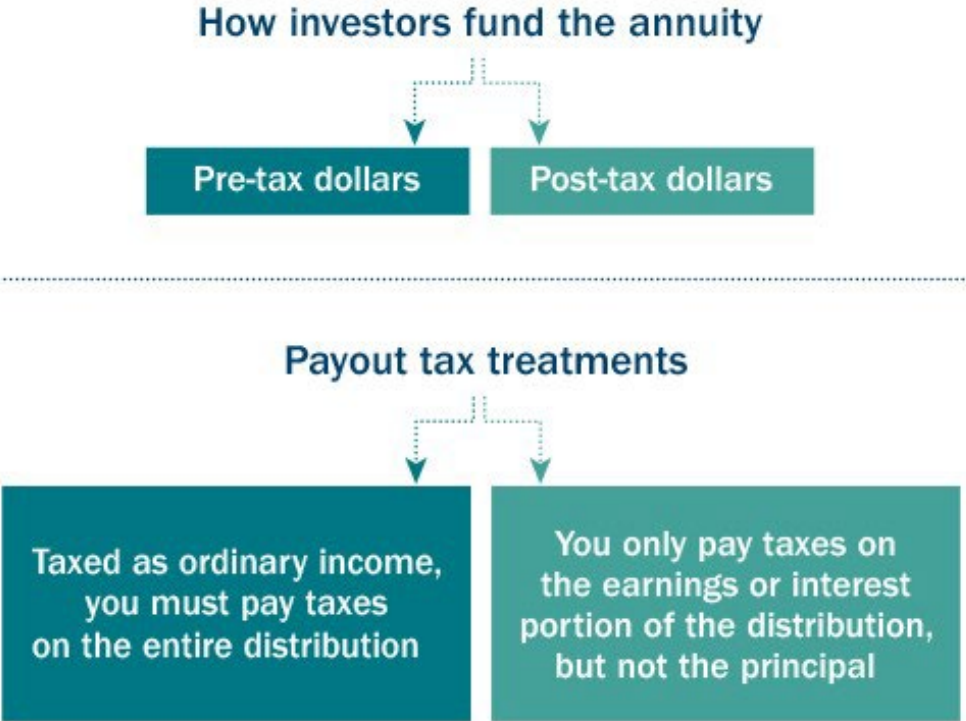
- Money is invested for a period of time until withdrawals are needed, typically in retirement
- Money can grow at a fixed or variable rate
- Best purchased between ages 55-65
- Premium deposits can be made one time or on an ongoing basis

# Comparing annuity types





# HOW ANNUITIES ARE TAXED



# Annuities – 10 Questions To Ask

1. What can this annuity do that other investments cannot?
2. What are the specific upfront and/or ongoing costs for this annuity?
3. What add-on features are available to customize an annuity purchase to my specific needs?
4. What are the associated risks and restrictions with this annuity?
5. When and how can I get income? What happens if I need to withdraw some or all my money earlier than expected?
6. How will I be taxed on withdrawals or income taken?
7. If I purchase this annuity, how do you or your firm get paid and how much?
8. What happens with this annuity when I die?
9. What are the insurance company's A.M. Best and Fitch credit ratings?
10. What are my options if I change my mind after purchase and want a refund of my deposit?



# OTHER INSURANCE PLANS

# UMBRELLA POLICIES

- Used to provide extra coverage to your auto and homeowners insurance in the case that you are sued for something that happens on your property
- This does not provide any professional liability coverage
- Generally a good idea if you have investment assets or income that need protection (e.g. rental properties, 1099 income, expensive equipment)
- Also consider if you have a pool, trampoline, “aggressive” breed dogs
- Inexpensive – worth pricing out if you are concerned
- [Shop around for multiple quotes](#)

# PROPERTY AND CASUALTY TIPS

- Review your homeowners and auto insurance every 3-5 years to explore potential discounts and update coverage needs
- You can get significant discounts by consolidating and putting all of your coverage with one company, but you have to ensure that they company is high-quality, highly-rated
- Check for discounted plans through your local credit union
- Look for gaps in coverage
- If you have no history of use, consider raising your deductible to decrease your monthly costs

# ESTATE PLANNING



Wills

Power of  
Attorney

Estate  
Planning

Advanced  
Healthcare  
Directive

Probate

Trusts

# WHAT HAPPENS TO MY ASSETS IF I DIE?

- Probate court
- NOT as scary as it seems
- Everything will have to go through probate court unless:
  - It is in a trust
  - You have set up a beneficiary
    - Retirement plans
    - Non-retirement accounts
    - Life insurance
  - Small estate: less than \$50,000

# WILLS

- Having a legal will doesn't prevent items from passing through probate, but it tells the court how you wish things to be divided or to whom your assets should go (harder to argue versus beneficiaries named on specific accounts, which can be changed more easily)
- Without a will, the probate court will decide who gets what – according to state law
- The will allows your family and friends to follow your wishes
  - More than just your assets
  - Funeral, cremation versus burial, final wishes, pets, etc.
  - The more you decide, the less your loved ones have to agonize over decisions at a horrible time

# HEALTH CARE DIRECTIVES

- Usually drawn up as part of a will
- Tells your family, loved ones, and health care providers under what circumstances you want care withdrawn
- SO IMPORTANT
- Again, the more you can decide for your loved ones, the less they are forced to make horrible decisions during incredibly stressful times
- New mental health directive available



# TRUSTS

- A trust is like a vessel into which assets can be deposited
- Allows you to exert more control over your assets after your death
- Important for minor children
  - They can't directly inherit any funds or assets
  - Your money would go into a trust to be used for the children
- Estate taxes
  - All of use have a \$11.4 million lifetime exemption for gift and estate taxes
  - For a couple, you would need an estate of greater than \$22.8 million dollars to run into any estate taxes
  - Impact VERY FEW of us
  - Subject to legislative change – in 2018 went from just over \$5 million to over \$11 million and could drop significantly in future to help federal deficit
- Very complex and potentially more difficult
  - Cost money to establish and fund (put assets into)
  - Require a trustee to manage

# TRUSTS

- Living
  - Set up while you are alive
  - Only useful if you then put funds/accounts/assets into the trust
  - May or may not provide asset protection, depending on whether they are revocable or not
- Testamentary
  - Set up after you die
  - Can be a vessel into which your assets are poured after you die
  - Work the same as a living trust – just weren't functional or created while you were alive

# TRUSTS

- Revocable

- You, as the trustee, can make changes to the trust, move things into and out of the trust, change beneficiaries, etc.
- Because you are still in control – there is no asset protection at all
- Costs can range from \$1,500 - \$5,000+ depending on complexity

- Irrevocable

- Once you put money or assets into an irrevocable trust, you can't change anything about it or remove the assets – they are no longer considered yours
- This is the only form of trust that really confers complete asset protection
- Much more expensive

# TRUSTS

- I believe these are a bit oversold – more people have them than need them
- Some good reasons to have a trust:
  - Concern about estate taxes (...over \$22.8 million in assets)
  - Need to ensure an estranged relative does not inherit money or other complex family issues
  - Control over assets from a second marriage
  - Real estate in multiple states (avoid probate in two states)

# ESTATE PLANNING - RECOMMENDATIONS

- EVERYONE needs a will
  - If you own a car, a home, etc. you have assets and should be clear about to whom you want them to go
  - It is not pretty to see a family struggling with how to handle everything, and probate is definitely more complex, lengthy, and expensive when you die without a will
  - If you have kids – it is IMPERATIVE that you make it clear who should raise them and who should control your money (it may or may not be the same person/family)
  - And, everyone needs health care directives
  - Can also use this time to create other important documents, such as powers of attorney (POA) for your finances and healthcare in case you are incapacitated. POAs are NOT valid after you die.
  - [Take advantage of FREE options through work](#)

# Resources

## CABQ Benefit Info

- [Cabq.gov](http://Cabq.gov)
- [Enrollment Guide](#)

## Insurance calculators

- [Bankrate.com](http://Bankrate.com)
- [Nerdwallet.com](http://Nerdwallet.com)

## Insurance Shopping

- [Policygenius.com](http://Policygenius.com)
- [Investopedia.com](http://Investopedia.com)

## Annuity Calculators

- [Bankrate.com](http://Bankrate.com)

- [Calculator.net](http://Calculator.net)

## Annuity Shopping

- [Consumeraffairs.com](http://Consumeraffairs.com)
- [Retirementliving.com](http://Retirementliving.com)

## Insurance Company Ratings

- [A.M. Best](http://A.M. Best)
- [Fitch](http://Fitch)

## Online Estate Planning

- [Investopedia.com](http://Investopedia.com)
- [Thebalance.com](http://Thebalance.com)

# NEXT STEPS FOR PERSONALIZED GUIDANCE:

1. [Click here to schedule](#) a 1-1 consultation via phone or virtual meeting to discuss your personal situation.
  - \*Please type “CABQ” and any specific questions you have in the notes field.
2. Once you schedule an appointment, you will be emailed a fact finder form to complete ahead of time.

THANK YOU! – QUESTIONS?