LET'S TALK
MONEY®
September/October 2018

Life Choices

Term or perm? This sounds like something you might hear from a hair stylist, but they're actually the two main types of life insurance. Because September is Life Insurance Awareness Month, now is a good time to learn about the differences between term and permanent life insurance.

Term Life

Term life insurance is insurance that covers you for a term — a certain period of time. While there are level premium term policies that keep premiums the same for a specified number of years, the most recognizable type of term insurance is renewed annually. Declining health can increase your cost, and premiums typically increase as you age.

While term life insurance offers a death benefit, it does not offer cash value. A few policies may offer a return of premium option, usually at a higher price. Term life may be appropriate if you have a temporary insurance need or limited financial means. If you buy term, consider a policy that allows you to convert without medical underwriting to permanent life insurance at a later date.

Permanent Life

Like term insurance, permanent life insurance offers a death benefit. Premiums for permanent life insurance are typically more expensive in the beginning than for term insurance, but never increase as long as you own the policy and pay premiums on time.

The cash value component, which builds over time, is among permanent life's most attractive features. There are a number of ways to use this cash value. Put it back into the policy to increase the death benefit or use it to reduce premiums. Or you may take a loan against the cash value or withdraw cash.*

Term or perm? It's your choice. Talk to an insurance professional to learn more.

** Loans and withdrawals can reduce the policy's cash value and death benefit, and they may result in a tax liability. They can also cause the policy to lapse. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½, any taxable distribution from the policy may also be subject to a 10% federal tax penalty. Talk to a tax professional for information about the tax treatment of withdrawals and loans.*

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Insurance Version

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Three Ways to Curb Overspending

If you regularly spend more money than you make, you have company. According to the Federal Reserve Bank of New York's Center for Microeconomic Data, Americans' total household debt rose $193 billion to a record $13.15 trillion at the end of 2017. Among the contributors: credit card balances shot up 3.2% for the year.

Start with a Budget

If you are in debt, overspending is likely one of the causes. Make a few small- to medium-sized purchases here and there without a plan and it's easy to see how debt accumulates. To stop this trend, start with a budget. Chronicle every penny that goes out for one month and compare it to what comes in — your income. Use this information to establish a budget, cutting enough expenses to make what goes out match what comes in.

Become Credit-Smart

Next, develop a plan to tame your credit card spending. If you don't carry your cards, you can't use them when entering a store or restaurant. Is online spending your problem? No problem, if you put your cards in a safe place that is out of reach when the impulse-spending urge strikes.

If credit cards are the main culprit of your overspending and you carry large balances, paying down these cards can pay off in the form of lower interest rates as your credit score improves.

In an Emergency

Unexpected and expensive vehicle repairs happen. So do home repairs, healthcare bills and even unemployment. To help defray most or all of your unexpected expenses, create an emergency fund, preferably one that covers six to 12 months of everyday expenses. But even a smaller fund is better than none. Put something away and don't forget to budget for it, contributing to the fund at least as often as you would pay a monthly utility bill.

FAFSA Filing Start Date Coming Soon

If you had a child graduate college at least two years ago and you have another who will enter college in September 2019, you may not be aware of the new FAFSA submission date.

The first day you can file the federal government's Free Application for Federal Student Aid (FAFSA) for the 2019–2020 school year is October 1, 2018, which is earlier than in the past. Filing early may give you access to aid that might not be available later, but you have until June 30, 2019 to file for the same school year.

Tips for Success

Applying for the FAFSA isn't a picnic, but you can get the most from this annual rite of passage for college students and their parents by avoiding common mistakes like not signing the application and leaving fields blank.

Also consider using the online IRS data retrieval tool, which you'll find at fafsa.ed.gov, to transfer information from your federal tax return to the FAFSA. Filing your FAFSA online not only gives you access to this tool, but to online application checks that can help you file accurately.

Student financial aid is usually available on a first-come, first-serve basis, so file early and accurately.

Five Truths about Life Insurance

September is Life Insurance Awareness Month, a time like any other when we can come up with several excuses to either not own life insurance or not own enough. Here's to setting the record straight:

Excuse: *I have plenty of time to buy it.*

Truth: Perhaps you do, but what if the unthinkable happens before you buy it? You aren't immortal. Or what happens if you develop a medical condition that either makes you uninsurable or makes life insurance unaffordable?

Excuse: *Life Insurance is too expensive.*

Truth: The younger you are, the cheaper individual coverage is. You might also afford a term insurance policy, especially one that allows you to convert to permanent insurance down the line. And don't forget about employer-sponsored life insurance, which is group coverage that is typically less expensive than if you bought it on your own. Group life insurance typically ends when you leave the job.

Excuse: *I have enough insurance through my employer.*

Truth: Maybe not, unless you supplement that amount with individual life insurance coverage. You may want enough insurance to cover three to seven years of lost income and living expenses, plus any extras such as replacing lost college savings.

Excuse: *I'm a stay-at-home spouse, so I don't have income to replace.*

Truth: When a stay-at-home spouse becomes widowed, childcare for young children may become a financial issue. If you don't have young children, your income still may not be adequate to pay others to perform the tasks you did, affecting the family's standard of living. Life insurance can help fill this gap.

Excuse: *I don't want to buy something I don't understand.*

Truth: That's a legitimate concern, but you have control over it. Ask questions. If you can't get answers that are easy to understand, talk to a financial professional who can provide them.

Defending Against Cyber Criminals

October is National Cyber Security Awareness Month, a good time to make sure to protect your loved ones, your business and yourself from a host of increasing cyber threats. Here is a sampling of advice from the U.S. Department of Homeland Security to help protect you online:

- In the digital age, keeping your children safe requires vigilance. Review security settings and privacy policies to make sure the websites your children frequently visit are age-appropriate;
- Watch changes in behavior. Children who suddenly avoid the computer or smartphone could indicate they are victims of online bullying;
- Use two-factor authentication, such as one-time PINs texted to your smartphone, with your passwords;
- Make your passwords stronger, using upper and lowercase letters with numbers and characters;
- Use up-to-date software that keeps you safe from viruses and malware;
- Don't get caught in a phishing attack. Even when an email looks like it is from your bank or credit card company, call them or access their website directly instead of clicking on the email link.

The Facts of Life (Insurance)

The following 2017 Insurance Barometer Study is conducted by LIMRA, the financial services industry organization that measures such attitudes and trends, and the nonprofit Life Happens.

Four in **10** Americans wish their spouse had more life insurance.

Some **60 million** Americans have an average life insurance needs gap — the difference between their actual coverage and their needs — of **$200,000**.

About seven in **10** husbands own life insurance, while only **63%** of wives can make the same claim.

While **85%** of Americans believe households should have life insurance, only **59%** have it.

Four in **ten** households without life insurance would struggle to pay living expenses if their primary wage earner died.

Americans' average life insurance coverage would replace **three** years of income, down from **3.5** years in 2010.

Legacy Planning

By itself, life insurance — with its income tax-free death benefit — offers families and business owners an efficient estate planning funding vehicle. When combined with a trust, life insurance can accomplish even more.

Multiple Benefits

A life insurance trust isn't for everyone. Because the trust is irrevocable, you should make sure this estate strategy is what you want. If it is, a life insurance trust offers a number of benefits. This type of trust can provide control, because the trust can include terms that govern how its assets are distributed, which can be a priority for people with minor and young adult children. Another advantage is privacy, as any assets owned by the trust can avoid the public glare of probate.

Estate Tax Tool

Another benefit is that any assets transferred to an irrevocable trust are removed from your taxable estate. This is still important for a couple of reasons.

One, even while the threshold at which federal estate taxes are levied was doubled this year, some states have estate and inheritance taxes on far smaller amounts. If you live in one of these states, an irrevocable trust can save your estate's beneficiaries money.

Two, life insurance death benefits are not subject to federal and many states' income taxes, but they can be subject to estate taxes. Putting life insurance inside an irrevocable trust makes the policy's death benefit free of both federal income and federal estate taxes. Just as with other assets, a trust's terms can dictate when and how the insurance proceeds can pass to beneficiaries.

Getting Started

To set up a trust, you will need to name a trustee, which can be a loved one, an advisor or even a financial institution. Next, you will need to dictate the trust's terms for distributing trust assets to beneficiaries, whom you must also name.

If an irrevocable life insurance trust is of interest to you, consult an experienced estate planning attorney to learn how to get started, as well as an insurance professional to learn how you can most effectively secure insurance coverage.

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The material submitted appears consistent with applicable standards.

Reviewed by,

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