Jaws!

What are The Odds?

By

Teresa Bear

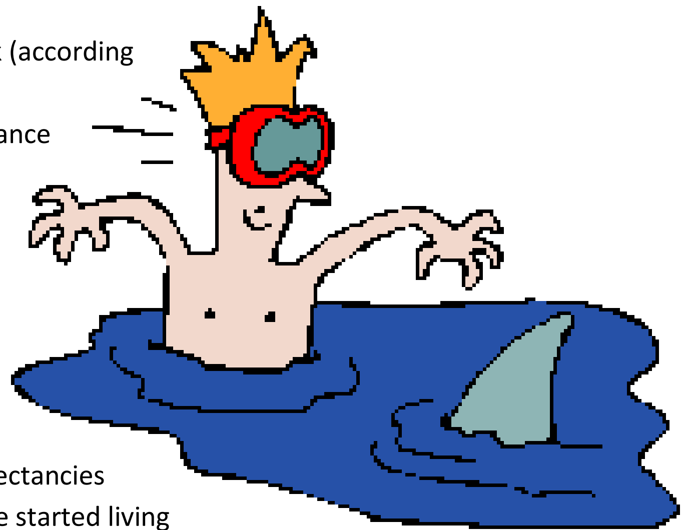
Certified Financial Planner™, CPA

Investment Advisor Representative

What are the Odds?

As a recent empty nester, my husband and I are entering a new era of our marriage. Our "project" this year was to watch the American Film Institute's top 100 movies of all time. Last night we watched #56 on the list – *Jaws*. I was never one for horror movies, and I remember watching it in the summer of 1975. It was terrifying!

One of the interesting things about the *Jaws* phenomenon was the irrational fear of being eaten by a shark which invaded popular culture. I lived in Kansas at the time, so the fear was REALLY irrational. However, the interesting thing about the world that we live in is that we have phobias and fears of things that are unlikely to harm us – and ignore real dangers that have a good chance of occurring.



In contrast to the 1 in 3.700.000 chance of dying from a shark attack (according to natgeotv.com), in last month's column I focused on the odds that (according to longtermcare.gov), a 65 year old retiree has a 70% chance of needing long term care at some point in their lives!

Those who don't have family members who will care for them and are not poor enough to qualify for government assistance need to either set aside funds to pay for their potential care – or purchase insurance to cover the risk.

Long term care insurance is a relatively new phenomenon. 100 years ago there was no need for long-term care insurance – life expectancies were shorter – and family members cared for their elders. When we started living longer – and moved away from multi-generational households, the insurance industry recognized the need to insure against disability and created traditional long term care insurance policies.

There are some positives with traditional long-term care policies. They generally cannot be cancelled (except for non-payment of premiums) and many provide a fairly nice benefit in relationship to the annual premium. However, there is one big downside to the policies. Many retirees purchase these policies in their 50's and early 60's and all of a sudden when they are in their 80's face an increase in premiums. They pay – and pay – and pay – and then can't afford the coverage 20 years later when they need the insurance. I compare this to buying car insurance for a toddler.

Recently there have been some new ways to insure against long-term care costs without buying a "use it or lose it" traditional long term care policy. One of those is to purchase an annuity with a long-term care benefits attached. These are often packaged as an income rider. In one of the most popular plans currently available, the insurance company pays an income payment for life and doubles that income for a period of time if the insured becomes disabled. There are two wonderful benefits to these types of annuities. The first is that unless you are already disabled, you can be covered under this plan with no medical underwriting process. The second advantage is that unlike traditional long-term care policies, either you – or your heirs – will most likely receive all of your original investment back.

The final alternative is purchasing life insurance with a chronic illness benefit. Life insurance is often overlooked as a funding mechanism for disability costs because of prejudices about life insurance. In the past, (in my opinion) there were many poor life insurance policies sold. But policies today are not your father's life insurance policies. The

insurance industry has done an excellent job at developing what I call a Swiss Army Knife life insurance policy. Depending upon the type you buy and when you buy it, a well designed life insurance policy can provide the following:

1. **TAX-FREE** retirement income
2. **TAX-FREE** long term care benefit and
3. A **TAX-FREE** death benefit to your heirs.

Originally appearing in
Lovin' Life After 50
March 2014 Issue

As a CPA, I get really excited about the **TAX-FREE** growth inside of a life insurance policy. Of course, the bad news about life insurance is that unlike the annuity solution, there is usually a medical underwriting process. However, assuming a normal life expectancy for a healthy retiree, the rate of return inside of a life insurance policy often is often greater than any comparable conservative investment. It should be an option that you consider when planning for a potential disability.

You probably will never be eaten by a shark – but disability can take a huge bite out of the money that you worked a lifetime to earn. Planning will make it "safe to go back into the water".

Teresa Bear, CFP™, CPA, MBA, IAR

Teresa Bear specializes in retirement planning and asset preservation for retirees and their loved ones. Teresa works primarily in the Phoenix Metro area and has offices in Mesa and Chandler.

Teresa has been helping families and retirees reach their financial, tax, retirement planning, and estate planning goals for over 25 years. She is legally bound to uphold the highest level of fiduciary standards when providing investment advice to her clients.

Author of the book, S*he Retired Happily Ever After*, Teresa is committed to educating clients and assisting them in reaching their financial goals.

www.Teresa Bear.com

480-503-0050

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP(R), CERTIFIED FINANCIAL PLANNER(tm) and federally registered CFP (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements. Investment advisory services provided by Brookstone Capital Management, LLC., a SEC registered Investment Advisor. The author is not engaged in providing accounting, legal, investment, or other professional services through the publication of this report – you must seek competent, professional representation for your personal situation