WIDMANN FINANCIAL SERVICES

4321 Northview Drive, Bowie, MD 20716
www.widmannfinancial.com
(301) 262-2919 (phone) • (301) 262-3481 (fax)

Financial Briefs

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Insurance and Financial Planning

Insurance plays a vital role in your financial plan. A comprehensive insurance plan, which can include everything from auto insurance to disability insurance, helps protect you, your family, and your wealth.

Without insurance, most people would have difficultly coping with major and unexpected financial setbacks. Insurance is a reasonable way to plan for worst-case scenarios. In many ways, it's the bedrock that supports your overall financial security. Some might even argue that if you have to prioritize, it's more important to focus on developing a solid insurance plan before you worry about issues like investing.

Where Do I Start?

Most people already have some insurance. A typical adult with a family and a job might carry auto, life, and homeowners insurance (not to mention health insurance, which is another essential coverage). But most people purchase their insurance piecemeal, picking up a policy here and there when they need it. Rarely do people have a coordinated insurance plan that aligns with their overall financial plan.

Thus, your first step in developing an insurance plan should be sitting down and taking an objective look at your total financial situation, perhaps with the help of a financial advisor. Consider your age, family situation, the risks you face, and current assets and liabilities. This will help you identify areas where you might need the peace of mind that quality insurance provides.

For example, parents with young children will almost certainly want life insurance, while people who suspect there's a good chance they'll end up in a nursing home may want long-term-care insurance. Sound complicated? It can be. Unfortunately, there is no one-size-fits-all approach to buying insurance.

Evaluating Your Risk and Determining Your Needs

Determining what kind of insurance you need to protect yourself and your family begins with an

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Avoid These 10 Insurance Mistakes

Few people enjoy thinking about their insurance needs, shopping for coverage, or reading through a policy's fine print. Once they do buy a policy, many people rarely think about it again, other than when they pay the premiums. But that tendency to avoid thinking about insurance can lead to insurance mistakes that can put a person's assets at risk. Below are some of the most common insurance mistakes:

- **Expecting the best —** Some people may think they can skip various types of essential insurance (like auto or health insurance) because it won't happen to them. Or they may buy a bare-bones policy thinking they won't ever need to make a claim. But the reality is that accidents and injuries can happen to anyone. A comprehensive insurance plan protects you when they do.
- **Not shopping around —** If you're in the market for a new policy, shop around and compare prices to get the best deal. But make sure you're comparing equivalent policies and coverage — an ultra-cheap policy may offer skimpy benefits.
- **Buying too much insurance —** While insurance is a valuable part of your overall financial plan, there is such a thing as being over-insured. If you're paying high premiums for insurance coverage you don't really need, you're wasting money. What types of insurance might you skip? Extended warranties, cell phone insurance, insurance for

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Insurance

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honest evaluation of the risks you face. But that's just the beginning. For example, if you have young children, you probably know you need life insurance. But how much is enough and what variety (whole or term) is best? And what about other types of coverage? Should you buy umbrella insurance or disability insurance?

Life insurance tends to be the area where people have the most questions about whether their coverage is adequate. To do this, you need to imagine the unthinkable: How would your family survive if you were no longer there to support them? Don't just pick a big number and assume it will be enough.

Consider this: You have a life insurance policy with a $1 million death benefit that you think will be more than enough to provide for your family if you pass away unexpectedly. Tragically, you die, and your surviving spouse uses $400,000 of the benefit to pay off your mortgage and some other debts, pay for your funeral, and cover other miscellaneous expenses. That leaves just $600,000 for your family.

If your survivors invest that sum in a fund that earns an average 5%, that translates to a monthly income of $2,500. That amount may not be enough to meet all your survivors' financial needs. And that assumes your financial situation is relatively uncomplicated. If you have children with special needs or who will be attending college soon, you may need even more insurance.

When it comes to disability insurance, you may be tempted to rely on your company's policy, but that might be a mistake as well. The coverage may not be as extensive as you expect, with a limited benefit period or a narrow definition of disability (you may only get benefits if you aren't able to work in any occupation, not just your current occupation). Robust disability insurance coverage is essential if you do not have the resources to replace your current income should you become unable to work.

Long-term-care insurance is another essential component of many people's financial plan. Given the high cost of nursing home care or a stay in an assisted-living facility, the need for these types of services in retirement would bankrupt many, even those with substantial retirement savings. If you suspect that you or your spouse might need such care, a long-term-care policy is one way to protect your assets and reduce the risk that you will run out of money paying for a nursing home stay.

Clearly, insurance and financial planning are intimately intertwined. It is difficult to separate one from the other. If you have questions about whether your current insurance coverage fits with your overall financial needs, please call to discuss this in more detail.

How Much Life Insurance Do You Need?

Rules of thumb exist that say you should be insured for between six and 10 times your annual earnings. But these ranges can be very wide and don't take into account your unique situation. The best approach to determine how much life insurance you need is to engage in some financial planning. Start by answering the following questions:

How much per year will your survivors need to live on, and for how many years? Expenses may be greater if, for example, you have young children who require day care; expenses may be smaller if there are no dependent children among your survivors.

How will that number be affected by inflation? Remember, we're talking about what could be a long period of time. At an inflation rate of 3% a year, a dollar loses 15% of its value in just six years, and about 25% after a little more than 10 years. Imagine the impact of a 25% pay cut, and you'll begin to appreciate the vital importance of factoring inflation into the equation.

Will your surviving spouse be able to work, and if so, how much will he/she earn? The amount your surviving spouse earns should reduce the life insurance coverage you need, but in an uncertain economy it may pay to err on the conservative side when estimating a surviving spouse's earning power.

Should you think of retiring large family debts? You can reduce the amount of money your surviving spouse has to earn by providing enough in life insurance to retire such debts as credit card balances, college and personal loans, and your mortgage.

How will college expenses be paid for your children? In addition to providing for daily living expenses, consider how higher education bills — if there are any — will be paid. Should you only provide enough in life insurance benefits to make up for annual contributions to a college fund, or should you provide enough for four years of college?

How will your surviving spouse's retirement be funded? One less person to provide for means the price of your spouse's retirement will be less. When considering how much life insurance coverage to buy, however, you should evaluate whether your policy benefits need to make up for contributions you were planning to make until you retired.

What rate of return can your surviving spouse expect to receive? Where will the unused proceeds of your life insurance benefits be invested? The rate of return they earn will make a big difference in how long they last — which can make a big difference in how much coverage you buy.

Please call if you'd like to discuss life insurance.

Avoid These 10

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specific diseases (like cancer), rental car insurance, and mortgage life insurance are usually not worth the premium you pay.

- **Not negotiating on insurance rates** — Here's a little-known tip: The premium price you're quoted isn't set in stone. Depending on the type of coverage you need, you may be able to get discounts based on your profession, the age of your car, installing an alarm system in your home, choosing a higher deductible, and more. Bundling — buying several policies through the same carrier — can also lead to premium price breaks.
- **Forgetting to pay the premium** — It's a simple but potentially devastating mistake. Missing premium payments could cause your policy to lapse, leaving you without coverage. Reduce the risk of this happening by automating your payments.
- **Dropping coverage to save money** — When your budget is tight, dropping insurance coverage may seem like a good way to save cash. You may save money in the short term, but you could end up worse off in the long term if you need to make a claim. If premium payments are straining your budget, consider raising your deductible or asking your insurer if you're eligible for any discounts.
- **Forgetting to update life insurance beneficiaries** — As your life changes, so should the people named as beneficiaries on your life insurance policy. Divorce, remarriage, the death of a spouse, or the birth or death of a child are all times when you should update these designations. If you fail to take this simple step, your life insurance may not do its job when you need it most. After all, do you want your insurance benefits to go to your ex-spouse or have one child receive a generous insurance payment while the other receives nothing? Keeping your beneficiary designations up-to-date can help you avoid those outcomes.
- **Having coverage gaps** — Everyone faces different risks, and thus has different insurance needs. Sometimes, it's easy to overlook a risk until it's too late. For example, if you live in an earthquake-prone area, you likely need separate earthquake insurance. If you serve on a nonprofit board of directors, you may need personal liability coverage. If you own ATVs, snowmobiles, or other vehicles, you may need special policies to protect yourself in case of damage to the vehicle or a lawsuit. The list of possible risks goes on and on.
- **Not researching an insurance company before you buy** — Not every insurance company is created equal, and what looks like a great deal today may be less appealing tomorrow when you are struggling to get a claim processed quickly. Before you buy, get multiple quotes, read the policy's fine print, review the insurer's complaint record with the state department of insurance, and check the company's ratings with ratings agencies like Fitch, Moody's, and A.M. Best.
- **Not thinking about insurance as part of your overall financial plan** — Insurance isn't something you should think about in isolation. In fact, it's an essential part of your overall financial plan. A solid risk management strategy protects your hard-earned wealth and your family's future. Please call if you'd like to discuss insurance in more detail.

Life Insurance for Stay-at-Home Spouses

When most people think about life insurance, they think about replacing the take-home pay earned by the family's primary breadwinner should he/she die. Yet it could be just as important to insure a stay-at-home parent.

The issue is one of valuation: how do you set a dollar figure on the contributions that a stay-at-home parent makes to a family? Start by looking at the functions he or she provides: cooking, cleaning, childcare, shopping, laundry, paying bills. How much would it cost to pay someone to provide those same services?

For a newly single parent of two children, the price of continuing to work could mean spending as much as $40,000 or more a year on childcare and household services. If you can't imagine finding that kind of additional cash flow, covering your spouse or partner with a life insurance policy to pay those expenses for as many years as needed makes sense.

You have two choices: you can take out a ***separate policy*** on your spouse that names you as the beneficiary, or you can add a ***spouse rider*** to your own policy. The advantage of a rider is that it can be cheaper than securing a separate policy for the stay-at-home parent.

On the other hand, if your spouse dies after you do, the rider typically doesn't pay a death benefit to your spouse's beneficiary. In addition, your spouse will have no access to cash value accumulation since the policy and cash values are owned by you. And, with some insurance companies, you can't secure as much coverage on your spouse in a rider as you can in a separate policy.

If there are other reasons for your spouse's life to be insured than simply replacing his/her homemaking services — like designating different beneficiaries or meeting estate-planning objectives — then a separate policy might be the better choice.

As with all life insurance decisions, the best way to insure a stay-at-home spouse differs for every family. For help assessing which spousal coverage decision is best for you, please call.

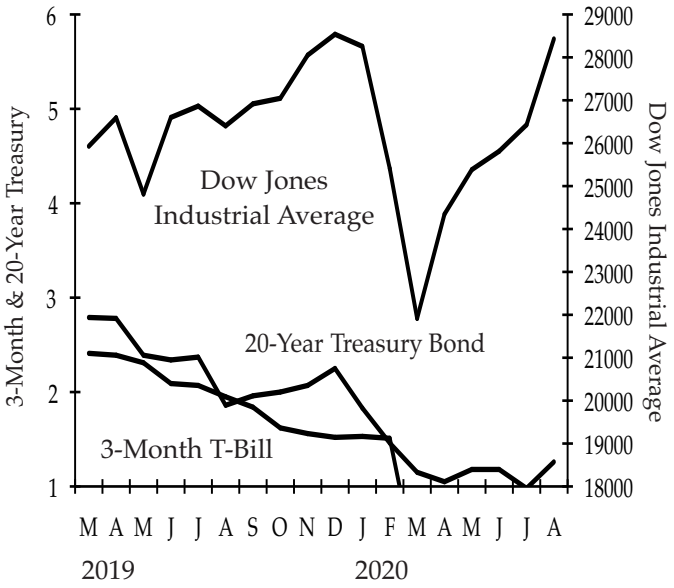
Business Data

Indicator	Month-end Jun-20	Jul-20	Aug-20	Dec-19	Aug-19
Prime rate	3.25	3.25	3.25	4.75	5.25
3-month T-bill yield	0.15	0.11	0.10	1.52	1.95
10-year T-note yield	0.66	0.55	0.72	1.92	1.58
20-year T-bond yield	1.18	0.98	1.26	2.25	1.86
Dow Jones Corp.	2.50	2.06	2.22	2.84	2.86
GDP (adj. annual rate)#	+2.10	-5.00	-31.70	+2.10	+2.00

Indicator	Month-end Jun-20	Jul-20	Aug-20	% Change YTD	12 Mon
Dow Jones Industrials	25812.88	26428.32	28430.05	-0.4%	7.7%
Standard & Poor's 500	3100.29	3271.12	3500.31	8.3%	19.6%
Nasdaq Composite	10058.77	10745.27	11775.46	31.2%	47.9%
Gold	1768.10	1964.90	1970.00	29.3%	28.9%
Unemployment rate@	13.30	11.10	10.20	191.4%	175.7%
Consumer price index@	256.39	257.80	259.10	0.7%	1.0%

— 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
March 2019 to August 2020



News and Announcements

Lowering Your Homeowners Insurance

Looking for ways to lower the premiums on your homeowners insurance? Consider these tips:

- **Increase your deductible.** Raising your deductible can significantly lower your premium. If you do so, however, keep an adequate emergency fund to cover higher out-of-pocket costs for any claims.
- **Combine insurance coverage with one company.** Often, you can obtain discounts for purchasing more than one insurance policy at the same company, such as auto and homeowners insurance.
- **Install an alarm and other safety features.** Since these features help reduce claims, insurance companies will often offer discounts for installing these devices in your home.
- **Stay with the same company.** Insurance companies will often give loyalty discounts to customers who have stayed for years, although you will typically have to ask for this discount.
- **Maintain a smoke-free environment.** Insurance companies will often lower premiums for households that are smoke free.
- **Review how much coverage you need.** Your homeowners insurance should be sufficient to completely rebuild and refurnish your home in the event of a total disaster. You will probably want a guaranteed replacement clause, which pays for the entire cost of rebuilding your home. However, that doesn't mean you need to insure it for its full market value. Even if your home is totally destroyed, you won't have to replace the land.

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