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Financial Briefs

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What Happens if You Are Disabled?

For many people, a long-term disability would be financially devastating. Although no one likes to think about this possibility, you should consider your options now so you can obtain disability income insurance if needed.

Even though it might be difficult, many individuals can find the funds to handle a short-term disability of six months or less. Find out what benefits you would be entitled to under sick leave policies, short-term disability policies provided by your employer, and workers' compensation. Another source of support might be your emergency fund containing three to six months of living expenses.

When considering a long-term disability, assess your income needs until age 65, when presumably retirement benefits would begin. During this analysis, consider the following items:

- **Estimate your monthly expenses following a disability.** Typically, some of your disability benefits would be free of income taxes (if you paid the premiums) and you won't incur work-related expenses. However, don't underestimate your expenses, since your medical and rehabilitation expenses might be much higher after a disability. Find out if you would continue to be covered under your employer's health insurance plan. If not, you'll need to make provisions for that expense.
- **Review your annual Social Security Statement for an estimate**

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Insurance Dos and Don'ts

Many of us have a love/hate relationship when it comes to insurance. We love feeling covered and protected in case of disaster, but hate paying out so much money just to guard against chance. This can lead to us not spending enough time thinking about what works best for our particular situation. But when we know a little more about what to do (and what not to do) with our insurance, we can end up saving ourselves both cash and heartache in the long run.

Do:

- **Ask about discounts.** Different companies offer various kinds of discounts, with diverse qualifying thresholds. You can't rely on your insurance company to automatically apply any available discounts to your policy because they may not be aware that you qualify. Some of the discounts to look into include: combining home and auto insurance policies through the same company, cutting down on car use or using public transportation to lower your monthly auto insurance payments, and installing a home security system to lower your home insurance premium.
- **Shop around.** It may be convenient to stick with the same insurance company through the years, but your loyalty may ultimately cost you. The company that offered the lowest rate when you were first looking is likely not the lowest a few years down the road. If your provider raises your premium or you've experienced a major life change, like marriage, moving, or a new teen driver, it is a good idea to shop around for a potentially better rate. Even if nothing has changed recently, you should check other companies' rates every few years.

Don't:

- **Select the lowest deductible.** It may seem enticing to have the lowest amount of out-of-pocket costs, but choosing the lowest deductible options in auto and homeowners insurance may mean you'll actually pay more in premiums than you could

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What Happens?

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of disability benefits. However, keep in mind the eligibility requirements are quite stringent — you must be totally disabled, have little or no chance of recovery, and wait six months or longer for your first check. Even if you do qualify, benefits tend to be modest.

- **Decide what personal resources you would use.** You can access funds from individual retirement accounts, annuities, or 401(k) plans without penalty if you are disabled. But first consider whether you want to risk depleting your retirement fund or children's college fund due to a long-term disability.
- **Investigate any long-term disability benefits provided by your employer.** Long-term group disability plans are typically less common than short-term plans. The policies frequently have strict definitions of disability, pay up to 60% of your base salary (bonuses and commissions generally aren't included), pay two to five years of benefits, and don't provide cost-of-living increases. Also factor in income taxes that must be paid on any benefits paid for by your employer. Check to see if your employer-sponsored retirement plan offers an option for early retirement in case of disability.
- **Consider purchasing disability income insurance to fill any gaps.** However, you might not be able to replace more than 60% to 80% of your income through insurance, since insurers want you to have an incentive to return to work. Any benefits from policies you funded are received income-tax free. Coordinate your employer-provided insurance and your own policy so the maximum benefits do not exceed the amount the insurance companies will pay. Otherwise, you may pay for coverage you won't receive.

If you decide to purchase disability income insurance, make sure to consider these things:

- **Pay special attention to the definition of disability.** There are three basic types of coverage: own occupation, any occupation, and income replacement. Own occupation pays benefits when you can't work at your specific occupation. Many professionals, such as doctors and lawyers, opt for this coverage. However, due to substantial claims, this coverage is now more difficult to obtain. You may be able to find own-occupation coverage for a specified period, with the policy then converting to any-occupation coverage. Any occupation means you must be unable to work at any occupation that you would be suited for based on your training and education. Income-replacement policies pay the difference between what you were earning before the disability and what you are earning now. For most individuals, income replacement policies will provide the best balance between cost and benefits.
- **Opt for a long waiting period before benefits start.** This is a good way to reduce premiums, provided you have other resources to rely on for the short term, such as sick leave, personal savings and investments, and short-term disability coverage. Waiting periods can range from one week to two years, but the most common option is a 90-day delay in benefits.
- **Consider coverage that pays benefits until age 65.** Disability insurance is designed to protect your financial situation from a serious disability, so you should obtain coverage for the long term. Policies for lifetime benefits are rare and expensive. It's probably not needed, however, since Social Security and other retirement benefits are available once you turn 65.
- **Look for a policy that provides residual benefits.** This allows you to return to work on a part-time basis and still receive partial benefits.
- **Make sure the policy is either noncancelable or guaranteed renewable.** Noncancelable means you can renew the policy every year at the same premium. Guaranteed renewable means you can renew the policy every year, but the premium can increase as long as it is not done so in a discriminatory manner. Either provision will ensure that the policy can't be canceled due to medical problems.

Please call if you'd like to discuss your need for disability income insurance in more detail.

Review All Policies Regularly

After purchasing an insurance policy, most people file it away and forget about it. But updates may be needed periodically, so you should review your policies on a regular basis.

Most insurance policies have a declarations page, which contains the pertinent information that needs to be reviewed. It may also be worthwhile to create a policy summary in a word or excel file to make it easier to review them. Here are the basics that the document should include:

- Type of policy
- Insurance carrier
- Policy number
- Date issued
- Premium
- Insured
- Beneficiaries

After you develop a summary of all your policies, you should look at the details of each policy. These details will help you determine if you have duplicate coverage, too much coverage, or not enough insurance.

Dos and Don'ts

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recover in claims. If you increase your homeowners deductible from $500 to $1,000, that could reduce your premium by up to 25%. Likewise, if you increase your auto deductible from $200 to $1,000, you could save up to 40% on your premium.

Holding a policy with a low deductible may encourage you to make small claims you would otherwise take care of yourself and that could preclude you from any claims-free discounts for which you would have qualified. Instead of paying higher premiums for a lower deductible, funnel your savings on the premium into an emergency fund so you'll have cash on hand to take care of small claims and save money in the long run.

- **Assume that group life insurance is cheaper.** If you have free group life insurance as a benefit from your employer, it can be tempting to purchase extra insurance from the same policy — but that is not always the best deal. If you are in good health, you may be able to get a better rate outside of the group life insurers, who tend to raise their rates every five years or so.
- **Maintain insurance through COBRA.** If you have lost your job or changed employers, you may be worried about continuous health insurance coverage. Federal law requires that employers let you maintain your former health insurance on their group policy for up to 18 months after you leave, which may alleviate that concern…but at great cost. Keeping health insurance through COBRA means you will pay about 102% of the cost, which is an especially heavy burden if your employer previously paid at least some of the premium. You can save yourself that financial stress by researching other health plans or negotiating with a new employer to qualify for their health plan sooner.
- **Insure your home based on market value.** The market value of your home assumes that the home remains in one piece. But if a disaster causes it to be destroyed, the cost of rebuilding it may be more expensive than what it could sell for now — so the insurance value of your home must be enough to cover that extra cost. Fortunately, there are several online calculators that can help you determine a cost estimate for rebuilding your home.
- **Select a policy based on the premium alone.** If you're prone to sticker-shock and shy away from higher prices in general, you may default to choosing lower-cost plans automatically. However, this can ultimately result in you not having the coverage that you actually need. Carefully examine the percentage you will be responsible for when it comes to doctor's visits, procedures, and prescriptions while comparing policies and use what actually works best for you instead of automatically choosing low premiums.

6 Life Insurance Mistakes to Avoid

Many families are in danger of being under-insured or have no life insurance protection at all. For the life-insurance seekers, here are some costly mistakes to avoid:

Mistake #1: Thinking you can't afford life insurance. The abundance of options available to people of all ages, income levels, and health status can make life insurance attainable for people who may have believed it was only for the wealthy.

Mistake #2: Relying entirely on an employer-sponsored life insurance policy. While it is convenient, opting to only utilize the group life insurance policy through work will almost certainly not provide you with enough coverage. Group life insurance will also not provide coverage if you are changing jobs, experience unemployment, or have to leave your position due to illness.

Mistake #3: Purchasing inadequate coverage. People often prioritize their discretionary spending over insurance coverage when making their budget, which can lead to insufficient funds being used for insurance. Review your budget and determine if the coverage amount you've chosen is really enough for your family's needs.

Mistake #4: Choosing the wrong type of insurance. There are significant differences between term and whole life insurance, and these differences can affect the affordability, length of coverage, tax implications, versatility, and customization of your policy. Review any policies you have and make sure they still meet your needs.

Mistake #5: Not updating your beneficiaries. A lot can happen in just a few years, and if you do not make a habit of reviewing your beneficiaries on a regular basis, there is a chance that they no longer match up with your wishes. This is especially true if there has been a divorce, birth, death, or family dispute in recent years. Beneficiaries on life insurance policies generally override wills, so keeping this up-to-date is particularly important.

Mistake #6: Not seeking professional advice. Life insurance can be complicated. To make sure you have not overlooked something important, such as the tax implications for your loved ones, it may be wise to consult with a licensed professional. This will allow for peace of mind that you have selected the best policy for yourself and your family's needs.

Please call to discuss your life insurance needs in more detail.

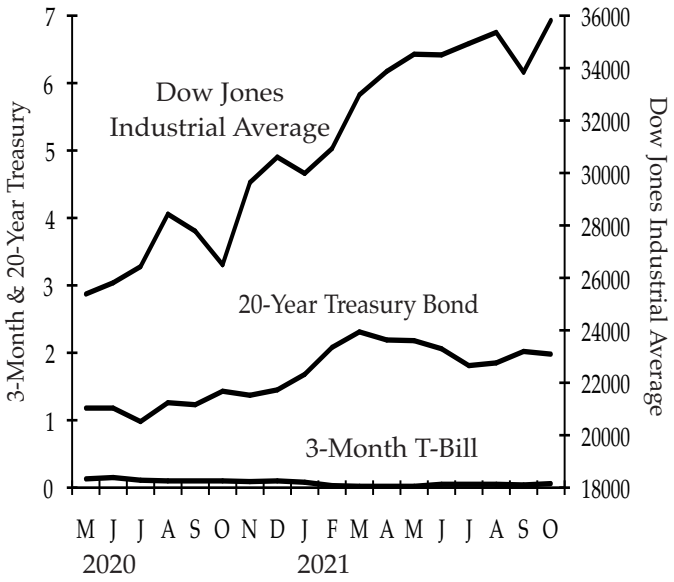
Business Data

Indicator	Month-end Aug-21	Sep-21	Oct-21	Dec-20	Oct-20
Prime rate	3.25	3.25	3.25	3.25	3.25
3-month T-bill yield	0.05	0.04	0.06	0.10	0.10
10-year T-note yield	1.30	1.52	1.55	0.93	0.88
20-year T-bond yield	1.85	2.02	1.98	1.45	1.43
Dow Jones Corp.	2.25	2.24	2.37	1.93	2.23
GDP (adj. annual rate)#	+6.30	+6.70	+2.00	+4.30	+33.10

Indicator	Month-end Aug-21	Sep-21	Oct-21	% Change YTD	12 Mon.
Dow Jones Industrials	35360.73	33843.92	35819.56	17.0%	35.2%
Standard & Poor's 500	4522.68	4307.54	4605.38	22.6%	40.8%
Nasdaq Composite	15259.24	14448.58	15498.39	20.3%	42.0%
Gold	1814.85	1742.80	1769.15	-6.3%	-6.0%
Unemployment rate@	5.40	5.20	4.80	-28.4%	-39.2%
Consumer price index@	273.00	273.57	274.31	5.4%	5.4%

— 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep 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
May 2020 to October 2021



News and Announcements

Life Insurance Tips

- Don't rely on rules of thumb when deciding how much life insurance you need. Go through a detailed analysis of your needs.
- Evaluate who should own the insurance policy, which determines whether the proceeds will be subject to estate taxes. Four common owners include the insured, the insured's spouse, a person other than the insured's spouse, or a trust.
- Select beneficiaries with care, being sure to name contingent or back-up beneficiaries in case your primary beneficiary dies.
- Before deciding on a specific type of life insurance policy, review all available options.
- Look for ways to reduce premiums by meeting certain criteria. For example, many companies offer discounts to non-smokers.
- Don't purchase cash-value insurance unless you plan to own the policy for at least 10 years. It typically takes at least that long to generate significant cash values.
- Check the financial rating of your insurance company periodically to make sure its financial status has not weakened.
- Don't replace an existing life insurance policy without first evaluating the consequences of surrendering the policy. Look at an in-force ledger statement to determine the policy's current status and its growth projections. If you need more insurance, keep in mind that you can always buy another policy for the additional amount needed. A policy change may incur fees and costs and may require a medical examination.
- Review your life insurance polices every couple of years. This review gives you a chance to evaluate the policy's performance and whether your needs and circumstances have changed.

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