

INSURANCE AND INVESTMENTS

BY DOMINIC LUCENTE

A good financial strategy is not just about "making money;" it is also about protection.

Some people mistake investing for financial planning. Their "financial strategy" is an investing strategy, in which they chase the return and focus on the yield of their portfolio. As they do so, they miss the big picture.

Investing represents but one facet of long-term financial planning. Trying to build wealth is one thing; trying to protect it is another. An effort must be made to manage risk.

Insurance can play a central role in wealth protection. That role is underappreciated – partly because some of the greatest risks to wealth go unnoticed in daily life. Five days a week, investors notice what happens on Wall Street; the market is constantly "top of mind." What about those "back of mind" things investors may not readily acknowledge?

What if an individual suddenly cannot work? Without disability insurance, a seriously injured or ill person out of the workforce may have to dip into savings to replace income – i.e., reduce his or her net worth. As the Council for Disability Awareness notes, the average length of a long-term disability claim is nearly three years. Workers' compensation insurance will only pay out if a disability directly relates to an incident that occurs at work, and most long-term disabilities are not workplace related. Disability insurance can commonly replace 40-70% of an individual's income. Minus disability coverage, imagine the financial impact of going, for instance, three years without work and what that could do to a person's net worth and retirement savings.¹

What if an individual suddenly dies? If a household relies on that person's income, how does it cope financially with that income abruptly disappearing? Does it spend down its savings or its invested assets? In such a crisis, life insurance can offer relief. The payout from a policy with a six-figure benefit can provide the equivalent of years of income. Optionally, that payout can be

invested. Life insurance proceeds are usually exempt from income tax; although any interest received is taxable.²

Most people want a say in what happens to their wealth after they die. Again, insurance can play a role. At a basic level, those with larger estates may use life insurance to address potentially large liabilities, such as business loans, mortgage payments, and estate taxes. An ILIT may also shield the cash value of a life insurance policy from "predators and creditors." Beyond that, a sizable life insurance policy can be creatively incorporated into an irrevocable life insurance trust (ILIT), through which an individual can plan to exclude life insurance proceeds from his or her taxable estate.³

Yes, the estate tax exemption is high right now: \$5.49 million. Even so, if a person dies in 2017 while owning a \$5 million life insurance policy and a \$500,000 home, his or her estate would be taxed. An ILIT would be a useful estate-planning tool in such a circumstance.³

Why do people underinsure themselves as they strive to build wealth? Partly, it is because death and disability are uncomfortable conversation topics. Many people neglect estate planning due to this same discomfort and because they lack knowledge of just how insurance can be used to promote wealth preservation.

The bottom line? Insurance is a vital, necessary aspect of a long-term financial plan. Insurance may not be as exciting to the average person as investments, but it can certainly help a household maintain some financial equilibrium in a crisis, and it also can become a crucial part of estate planning.

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Each year, nearly 150 million households file their federal tax returns: digging for receipts; gathering mortgage, retirement, and investment account statements; and trying to take advantage of every tax break the code permits.

This tax season, why not make the most of all that effort?

It's a perfect time to take a critical look at your financial situation. Let us help you analyze both where you are and where you'd like to be, and work with you to craft a plan to work towards financial well-being.



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Citations.

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- 2 - tinyurl.com/knroq9u [3/27/17]
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