



ABC INSURANCE GROUP

# NEWS BLAST

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## INVESTING STRATEGY

# Retired and Facing Stock Market Volatility

**I**F THE recent stock market volatility has you spooked, you're not alone. The COVID-19 outbreak that has spread throughout the world has damaged global supply chains, devastated international travel and tourism and is likely to have a significant effect on many a company's revenues and profits.

But as the stock market goes through serious gyrations, individual investors will often over-react out of fear and sell their holdings to avoid further losses.

That could result in selling off perfectly good investments that are still strong long-term plays.

If you are concerned about the effect that volatility is having on your investments and retirement funds, you can call us so we can help you devise a strategy that you are comfortable with. In the meantime, here are some tips to consider:

### Resist the urge to panic-sell

The problem with panic-selling is that you will likely plan to get back into the market, and the same stocks you had before, when things settle down.

But most people are terrible at timing the market and, in order to profit from this strategy, you need to make two timely decisions:

- When to get out of the market.
- When to get back in.

If you get either of these wrong, it can hurt your financial situation rather than improve it.

Most people who choose to get out rarely get back in on time. This results in them missing out on rallies that are often part of a recovery.

There is another consideration as well: If you have your money in a taxable account, selling will trigger long-term unrealized gains, so you'll take a tax hit that you could have deferred to the future.

### Plan ahead

The key to successfully riding out stock market volatility or a downturn in retirement is to plan for it ahead of time. Some financial planners recommend allocating a few years of income in bonds, for example.

During market downturns, you can opt to remove the funds from your bond investments, which will not be affected as much by a stock market downturn – and may even perform better.

So, during the years that stocks are down and recovering, you can sell bonds for your minimum withdrawals. In this way, you are selling investments that are up or down the least to meet your income needs.

See 'You' on page 4



## CONTACT US

If you have any questions regarding any of these articles or have a coverage question, please call us at:

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# Understanding the Need for Disability Insurance

**T**HE IMPLICATIONS of being totally disabled are too frightening for most people to think about. Disability has far greater economic, and social consequences than dying.

Individuals (especially males) between the ages of 30 and 50 will likely suffer an incapacitating injury or illness before they die. However, for many people, it is easier to imagine dying than becoming disabled.

That's probably because of the financial toll it can take. A disabled person continues to require shelter, food, medication, support services and more after having lost their ability to earn a living.

Not only are they not contributing, the individual is usually consuming a disproportionate amount of the assets the family needs to live on.

For still unexplained reasons, disability income protection plans have always seemed to lag behind other forms of protection, despite the fact that a long-term disability, which can be catastrophic, happens more frequently than most people think.

## Why it's important

Disability insurance provides essential protection against the loss of income due to an accident or illness.

There are two types of coverage:

**Short-term coverage** – This generally provides income replacement for a period of three to six months.

**Long-term coverage** – This starts after a short waiting period and, depending on the specific policy, usually lasts two years, five years or up to age 65.

## Definitions matter

The definition of disability in the insurance policy is critical. The more liberal definition, which of course costs more, defines disability as being unable to do a specific job. This is called an "Own Occupation" definition.

For instance, a surgeon has an accident and loses the use of

one of his hands and can no longer perform operations. He can still receive benefits even if he is working and getting paid to teach surgical techniques.

But if a policy defines disability as being unable to do a any job, it's known as the "Any Occupation" definition. Under this type of policy, if that same surgeon accepts a position as a teacher, he would forfeit the benefits.

Note, however, that an "Any Occupation" definition may be just fine for most occupations. A financial professional can help you decide which one is right for you.

## Other considerations

A cost of living adjustment rider is important since it adjusts the benefit annually according to the changes in the cost of living index. While not critical for a short duration disability, over a 10- or 20-year time frame it is essential.

The waiting or elimination period mentioned earlier is also flexible: 30-60-90-120-180 days. Obviously, the longer the waiting period, the lower the cost.

A good policy must be "Non-Cancelable" and "Guaranteed Renewable," which protects the insured from an insurer not renewing the policy and raising the premiums.

You can obtain a disability insurance policy through an employer group plan or as an individual. The group plans are less expensive but have far more restrictions and caps than an individual plan.

What many people do not realize is that most benefits received under a group plan are taxable.

Highly compensated employees can seldom obtain the level of protection they need under a group plan because of coverage limits. The best way to make up the difference is to purchase a wrap-around individual plan.

Without disability insurance protection, you can lose everything you own very quickly as the result of an accident or illness. Don't gamble with your future. ❖



# Coverage That Steps In When You Need It Most

**A** HEART ATTACK, stroke or major organ failure can suddenly hit anybody. When it does, life changes in a second, at first being a struggle for survival and, if the person survives, they are faced with major expenses.

While overall fitness and health is the best prevention against one of these events, it is still a fact that in the U.S., someone has a heart-related event every 34 seconds, and someone has a stroke every 40 seconds.

Many people assume they're fully protected with a standard health insurance plan, but the exorbitant costs of treating life-threatening illnesses are usually more than any plan will cover. Some of these extra expenses include:

- Deductibles and copays.
- Costs associated with out-of-network treatment and additional medical procedures, such as angioplasty and pacemaker implantation.
- Travel and lodging during treatment.
- Rehabilitation and home health services.
- Childcare.

Many people don't have enough savings or, even if they do, can be left financially devastated as the costs quickly add up. To avoid this calamity, the solution is to have a critical illness policy in place.

## What a critical illness plan offers

Critical illness insurance helps supplement your major medical coverage by providing a lump-sum benefit that you may use to pay direct and indirect costs related to the most prevalent critical illnesses. Among the conditions that are typically covered are:

- Heart attack
- Cancer
- Stroke
- End-stage renal (kidney) failure
- Coronary bypass

Other serious illnesses may be covered as well, depending on the specific design of your plan.

Additional coverage options also are available to help pay for health screenings, subsequent diagnoses and cancer vaccines.

One of the benefits of critical illness insurance is that the money can be used for a variety of things, such as:

- To pay for medical services that might otherwise be unavailable.
- To pay for treatments not covered by a traditional policy.

- To pay for daily living expenses.
- Transportation expenses, such as getting to and from treatment centers, retrofitting vehicles to wheelchairs, and installing lifts in homes for critically ill patients who can no longer navigate staircases.
- Terminally ill patients, or those in need of a restful place to recuperate, can use the funds to take a vacation with friends or family.

## How it works

Critical illness plans differ depending on the policy and insurance company. For a plan with a low benefit amount you would likely not have to undergo a medical exam. These are called "guaranteed issue" plans. Higher benefit amounts may require you to undergo a medical.

Critical illness policies are priced according to a schedule, which is written out in your policy. Your premium goes up every time you move into a new age range, as listed in the schedule, and some insurers even raise your premium every year.

After a certain age, usually around 65, the insurer will cut your benefit in half, which is called the "age reduction schedule." Most policies expire when you reach age 70 or 75.

Benefits under a critical illness plan typically max out at between \$10,000 to \$50,000, and they are paid out in a lump sum.

### Example:

Brenda suffers a heart attack and has critical illness insurance to help pay the bills while she recovers.

**Immediate costs** – Brenda's employer-sponsored health insurance does not cover testing and her angioplasty procedure, but her critical illness insurance steps in to pay for them.

**After recovery** – After recovering, she follows her doctor's advice and uses part of her benefit to pay for a gym membership and take a vacation to relieve stress.

**Prevention** – Brenda decides to start getting a stress test every year, which is paid for by her annual health screening benefit. ❖



## You May Want to Cut Back to Minimum Withdrawals

### Use multiple sources

Develop sources of monthly lifetime retirement income that don't drop if the stock market crashes. Use these "retirement paychecks" to cover your basic living expenses, or at least come close to doing so. Basic living expenses include housing, utilities, food, medical insurance premiums, and income and property taxes.

For a good majority of Americans, their Social Security check is the main source of income – and fortunately, it's protected from stock market volatility. Try to live a life where this check covers most of your main living expenses.

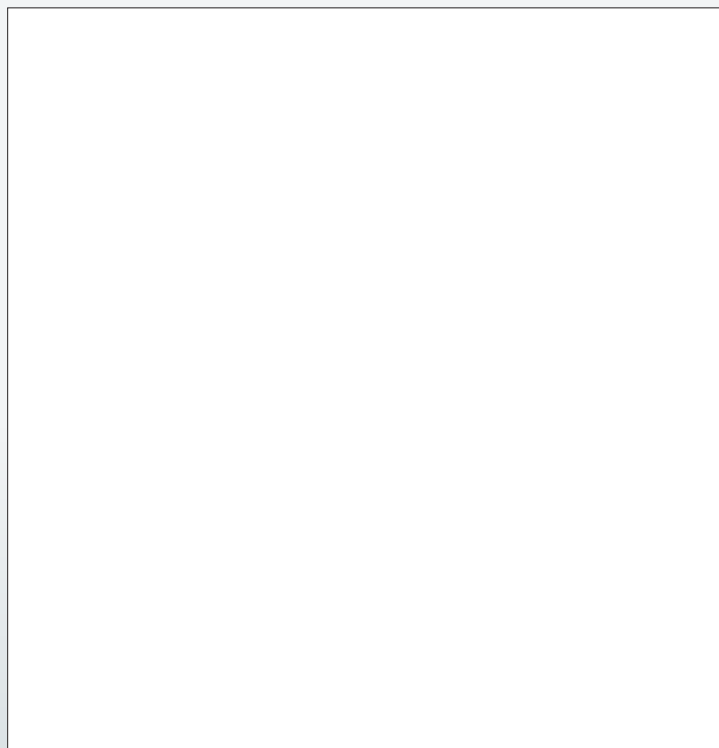
If you need additional retirement paychecks to cover your basic living expenses, consider using a portion of your retirement savings to purchase a low-cost immediate fixed-income annuity. Talk to us about what your options are.

### Dial back on withdrawals

If you need to budget but have many of your funds in stocks, see if you can pay for your living expenses without tapping your 401(k) or IRA account. If you can leave it untouched and wait for the eventual bounce-back, you'll be better off since you won't be depleting your stock holdings.

So, if you were considering removing a significant portion of your retirement account to cover upcoming expenses, you would lose money. If you can postpone that decision by tapping other funds that are not tied to the stock market, you could ride out the downturn and not be much worse off.

If you have already started taking out funds from your 401(k)



or IRA and are withdrawing more than your required minimum distributions, you may want to cut back to the minimum withdrawal instead in order to reduce the impact. ❖

