

# Talk of the Town

## Insurance Planning in the 21<sup>st</sup> Century



James D. Stillman

Wow! Can you believe the year is coming to an end and the holidays are almost upon us? Where does the time go? I know I've said this in the past, but as we grow older time just seems to speed up faster and faster. Doesn't it just seem like yesterday we were talking about Y2K and how all our computers were going to blow up? Now I'm talking about how it won't be long before I'll be going on Medicare. Yikes!

These past few months I've discussed insurance planning in retirement, and we've also reached out to the younger crowd as to how they can use investment grade life insurance to create tax free retirement income. This month I want to relay some of the changes to the insurance industry that are being implemented as you read this article.

The IRS, US government, and insurance regulators have mandated that legal reserve insurance companies update their actuarial tables to current standards. Actuaries periodically try to determine how long folks will live. Based on updated figures, a married couple now lives 3 – 5 years longer than at last check and single folks live 2-3 years longer (guess there's something to be said for being happily married).

So, what does that mean for the consumer buying life insurance or annuity products? Like always, it's a mix of both good and not so good. Let's discuss life insurance first. It's really quite simple. Since people are living longer, an insurance company on average does not have to pay out a death claim until later. That means they will collect premium for a longer period of time before paying a death claim. It also allows for a longer period of time for insured people to cancel their policies or allow them to lapse, as dumb as that may be, which means the insurance companies get off the hook. The bottom line is that we've seen life insurance premiums dropping as a result of the updated actuarial figures. They have never been this low and may drop even more in the future. Of course this will be offset some by your age and health, but there has never been a better time to buy life insurance or review your current life insurance plan to see if it could be upgraded for little to no cost.

Now, let's discuss annuities. Annuities are simply guaranteed insurance contracts that transfer "income risk" to the insurance company (that's a good thing). It's very simple; we use annuities for guaranteed life income and safety against stock market risk. Annuities are the only financial tool that can accomplish these goals effectively, period! So, for all the annuity haters out there, get over it! Here's the bad news. Since people now live longer and annuities pay income for life, insurance companies have had to scale back on what they're willing/able to contractually

guarantee. These lifetime guarantees of benefits are called "legacy obligations", and legal reserve insurance companies must now hold more money in reserve to cover these obligations. So, they are being very careful to make sure they don't "sell the farm" as we say. Regulators & insurance commissioners audit insurance companies every year to make sure they are meeting their legal reserve requirements and doing everything they can to make sure they remain solvent in virtually any economic condition.

Annuities still provide better guaranteed income strategies than any other financial tool, and if "laddered" properly with other investment strategies can provide a good foundation for any retirement plan. We preach the importance of blended strategies with annuities providing a base of income and safety for the overall plan. The bottom line with annuities is that even though annuity income guarantees have been reduced in most cases because of the actuarial updates, they still have a place in most retirement portfolios, in our opinion.

Be sure to tune in to "The Safe Harbor Retirement Planning Show" every Saturday at 10am and Wednesday at 8am on WSIC AM 1400 & FM 100.7. Also, feel free to check out our website for a ton of information, lists of our free reports, our uploaded radio shows, to request copy of my book "Finding Safe Harbor in Retirement" or a free consultation, or to sign up for any of our upcoming seminars.

*And, as always, remember: The purpose of the money dictates where you put it!*

Until next month,

James D. Stillman

### "Chart Your Course to Retirement"

Thursday November 10th & Tuesday November 15th

(Check-In at 5:30pm, Doors Close at 6:00pm)



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