



INVESTING IN PEACE OF MIND: INSURANCE AND ANNUITY INSIGHTS

A WEBINAR FOR EMPLOYEES FROM YOUR EMPLOYEE ASSISTANCE PROGRAM

July 10, 2024



Federal
Occupational
Health

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OBJECTIVES

- Explore how financial tools fit within the context of a plan
- Define basic types of life insurance and annuity products
- Determine insurance options for specific circumstances
- Discover when and when not to use annuities in your plan

FIVE CRITICAL PIECES TO A PLAN

Investments

1



Income

2



Healthcare

3



Taxes

4



Legacy

5



PRODUCTS AS TOOLS

- There is no one-size-fits-all tool for any one person
 - Focus on your life plan, then select the proper tool to execute that plan
 - Used properly, life insurance and annuities can create significant benefits
- If used incorrectly, can have unintended consequences

SECTION 1

LIFE INSURANCE

TYPES OF LIFE INSURANCE

Term life
insurance

Temporary insurance for a pre-determined term

Permanent
life
insurance

Life insurance that doesn't lapse; if you pay as agreed, it is with you forever

Death
benefit

Life insurance offers a tax-free death benefit paid to the insured's beneficiaries

Cash
value

Permanent insurance policies allow you to withdraw previous payments for any reason

GROUP LIFE INSURANCE

Group:

Provided by your employer (FEGLI) while employed and sometimes carried into retirement

- Underwritten for entire group, regardless of individual health
- Can typically add multiples of your salary for a life-changing event, such as:



Marriage



Divorce



Birth of
a child



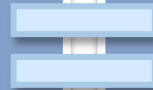
Death

FEGLI OPTIONS

Basic

Your salary, rounded up to
the next \$1,000, plus \$2,000

Example Salary:
\$99,450



FEGLI: \$102,000

FEGLI OPTIONS

Option A: Standard

\$10,000 in
additional
coverage on
your life

Cost
increases
every five
years

Option B: Additional

1-5x your
salary in
additional
coverage
on your life

Option C: Family

1-5x multiples
on your eligible
family
members' lives

Each multiple
equals:

- \$5,000 for your spouse
- \$2,500 for eligible dependent children

FEGLI IN RETIREMENT

If you meet the requirements, you must choose what will happen when you turn 65 or retire (whichever is later)

BASIC



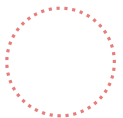
75% reduction

- Basic coverage reduces by 2% each month until it reaches 25% of its pre-reduction amount
- Free starting at age 65



50% reduction

- Basic coverage reduces by 1% each month until it reaches 50% of its pre-reduction amount



No reduction

- Basic coverage does not reduce
- Cost is equal to what was deducted from your paycheck

A, B, and C

Can choose to keep in retirement, but cost increases for the remainder of your life

For Cost and Details:

opm.gov/healthcare-insurance/life-insurance/program-information

PRIVATE LIFE INSURANCE

Private:

Purchased on your own, outside of your employer

- Underwritten individually
 - Healthy individuals receive cost savings and/or more benefits
- There are two main types:



Term



Permanent

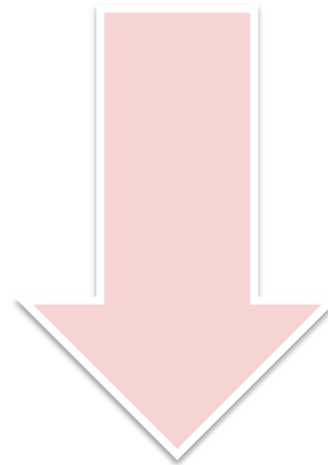
PRIVATE PAY INSURANCE: TERM LIFE

- Provides coverage for a specified time or term period
 - Typically, up to 30-year terms
 - If you die within the policy-defined period, your beneficiaries receive the face value of the policy



Pros

- Significantly more affordable
- Potentially convertible to permanent insurance later
- Premium is protected against death

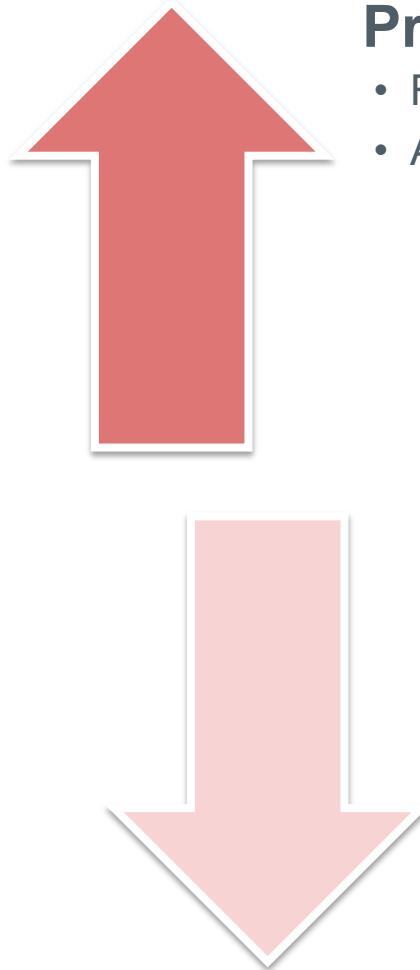


Con

- Premium is forfeited if you don't die within the term

PRIVATE PAY INSURANCE: PERMANENT LIFE

- Provides coverage for as long as you live
 - You pay a premium for your lifetime or a pre-determined amount of time
 - Upon your death, benefits are paid to your beneficiaries
 - Typically comes with a cash value savings element



Pros

- Refundable paid premiums
- Additional benefits:
 - » Cash value account that earns interest
 - » Death benefit can be used in the event of a chronic illness
 - » A conservative investment, long-term care (LTC) alternative, tax-shelter for qualified money, and an estate planning tool

Cons

- More expensive than term life
- Paid premiums are partitioned:
 1. Cash value
 2. Cost of insurance

PERMANENT INSURANCE

UNIVERSAL LIFE

Premiums

Fixed

- Can be changed annually

Cost of Insurance

Increases annually

- Over the entire life of the policy

Death Benefit

Tax-free

- Typically, doesn't increase
- Can be lowered later to reduce costs if your situation changes

Cash Value

Earns interest annually

- Based on performance of market index or interest rates

WHOLE LIFE

Fixed

- Not as flexible as Universal Life
- Can be lowered later if your situation changes

Stays steady

- Over the life of the policy

Tax-free

- Typically increases over time with premium payment

Earns dividends and interest annually

- Based on interest rates and the company's ability to pay dividends

PRIVATE LIFE INSURANCE

KEY POINTS

Benefits from life insurance are tax-free

- Death benefits pass to your heirs 100% tax-free
- Cash value plus interest earned can be accessed and withdrawn tax-free

Cash value can be accessed via:



A straight distribution

- May reduce the amount of benefit that is payable on death or for an LTC event



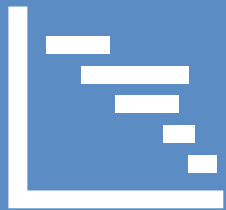
A loan against the policy

- You are charged an interest rate
- Structured properly, loan amount can remain in cash value earning interest
- Any outstanding loan upon death is paid back from the death benefit

PRIVATE LIFE INSURANCE KEY POINTS



Some permanent policies allow early death benefit access in qualifying long-term care situations



Depending on whole or universal life, policies can be structured in many ways, including:

- Favoring the death benefit vs. cash value
- Joint policies on spouses
- Long-term care-focused



Consult with a comprehensive financial advisor and buy the tool that best fits your long-term financial plan

SECTION 2

LIFE INSURANCE STRATEGIES

INSURANCE AS AN INVESTMENT STRATEGY

Invest the cash value of any permanent life insurance policy to **diversify your assets, provide guaranteed protection, and establish a backup** when other strategies underperform

Access the money tax-free by withdrawing it or taking a loan against it (that you never have to repay)

Cash values can vary across Universal and Whole Life policies

- The object is to earn interest on the money within the policy
- Cash value performance has historically been on or over par with the “bond” market (F-Fund)

INSURANCE AS LEVERAGE FOR LONG-TERM CARE



In many policies, you can use the LTC death benefit while you are alive



Earmarking money in a permanent policy now can provide a known outcome for an unknown LTC situation later



If you never need LTC, you still have access to the cash you put in and it's a tax-free benefit for your family

INSURANCE AS A LEGACY AMPLIFIER

- Insurance policy death benefits are tax-free
 - Traditional IRAs and TSPs are **fully taxable** upon the participant's death
- When comparing returns **after tax**, life insurance can be used to set up guarantees for money you're not using

Example

- You created an emergency fund that grew an income amount you can't outlive. What can you do with the remainder?
 - Leveraging as little as 4-5% of that extra money annually into life insurance can provide **a known, attractive, after-tax benefit without the stress, worry, and fear** of the stock market
 - **Some** policies **let** you **retain access to your principal** and earn interest tax-free

INSURANCE AS YOUR OWN BANK



Build up cash within a life insurance policy and use it in place of your banking account

Example

- Using the cash value of your policy for the downpayment on a house
- Some policies allow you to pay interest to yourself only and still have protection via the death benefit in an emergency

LIFE INSURANCE KEY POINTS

Plans can be structured in different ways



Higher cash value, lower death benefit



More potential for growth
(but more potential for loss, too)



More guarantees, fewer unknowns
(and vice versa)



More living benefits, fewer death benefits



Choose an advisor who
can help you make a well-
rounded plan!

Life insurance is a tool

- Used efficiently, it can be a valuable asset to:



Leverage your estate



Create tax-free savings



Provide extra living benefits



Allow for more financial freedom

- Used inefficiently, it can be an added cost that doesn't provide a lot of value

SECTION 3

ANNUITIES

TYPES OF ANNUITIES

Definition

- An annuity is a fixed sum of money paid to someone each year, typically for the rest of their life
- Annuities are an insurance product
 - As an investment, they can be used **inside and outside** of IRAs, 401ks, and even your TSP

Variations

- Single Premium Immediate (SPIA)
- Fixed
- Fixed index
- Variable

There are many choices!
Choose an industry leader
who specializes in your plan's
exact needs

SINGLE PREMIUM IMMEDIATE ANNUITIES

- A contract between you and an insurance company designed for income purposes
- How they work:
 - You give money to an insurance company
 - The company agrees to pay you a **LIFETIME** payment based on mortality tables and interest rates
 - There is no death benefit (the insurance company keeps what's left after you die)

Example

As an example, the MetLife annuity inside your TSP is an SPIA

Application

Guaranteed lifetime income, regardless of the stock market and changing interest rates

FIXED ANNUITIES

Also known as Multi-Year Guarantee Annuities (MYGA)

- Features a guaranteed interest rate for a fixed amount of time
- Access to only a percentage of your money without paying a fee (typically, up to 10%) over the life of the MYGA
- Like an SPIA, MYGAs include the option to annuitize a contract, which results in lifetime payments

Example

- You put money into a five-year MYGA
 - The insurance company guarantees a 6% interest payment on the balance annually for five years
 - During that time, you can access no more than 10% of the balance each year
 - » After five years, you have complete access to your funds
 - **\$100,000 for five years at 6% would be \$133,823**

FIXED INDEX ANNUITIES

- Have floors and ceilings, and interest is credited based on the performance of an underlying market index
 - If the underlying index goes negative in a period, zero interest is credited
 - » **Example:** SP500 loses 25% in one year, your account loses 0%
 - If the underlying index goes positive, interest is credited based on performance, to a certain cap
 - » **Example:** SP500 gains 25% in one year; your account may earn 15%
- You have the option to add an income rider
 - **Example:** A \$100,000 account value can go up and down with the market; however, if you choose to activate the income benefit, you can take out a steady \$6,000 a year, even if the account value goes to zero

FIXED INDEX ANNUITY COSTS

Fees and expenses



Many have zero fees, though others have fees, typically ranging from 0.5%-1.5%

- Fees are usually associated with some sort of “rider” (added benefit), such as an income rider

Surrender charges



Like MYGAs, you only have access to a certain percentage of your money over a specific time frame

VARIABLE ANNUITIES

Part insurance, part market-based investment

– Typically have two sides:

- **Account value**

- » Value goes up or down based on market conditions
- » Your principle is not protected

- **Benefit value**

- » A separate tracked value with a guarantee
- » **Income benefit:** A minimum withdrawal amount that can be taken out of the variable annuity forever, regardless of the account value
- » **Death benefit:** A minimum amount paid to your beneficiaries, regardless of the account value

VARIABLE ANNUITY COSTS

Fees and expenses



- Mortality and expense
- Administrative
- Riders
- Underlying fund expenses
- Not uncommon to see 3-4% in fees

Surrender charges

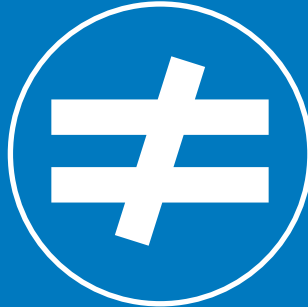


Like MYGAs and fixed index annuities, you only have access to a certain percentage of your money over a specific time frame

ANNUITY KEY POINTS



Traditionally sold by commission-driven agents who are **PRODUCT**-oriented, not **PLAN**-oriented



Not all annuities are created equal



As federal interest rates rise, these types of products improve

- If you currently have an annuity that is over two years old, you should review it ASAP

SECTION 4

ANNUITY STRATEGIES

USING ANNUITIES AS PROTECTION

- Are bonds a safe alternative to the stock market?
 - Over the last 10 years the TSP F-Fund has averaged 1.63%, compared to the TSP C-Fund average of 12.69%
 - Neither the C- nor F-Funds have caps on their losses (i.e., you can lose an infinite amount of money), and each has had double-digit decreases in value in the last five years
- A five-year MYGA currently pays north of 5% annually and fixed index annuities have shown double-digit returns in recent years, both of which, contractually, can never be negative
- View an annuity as an “asset class” to protect against downside risk
 - Can be beneficial, especially if you need to take a withdrawal during a negative economic time.

USING ANNUITIES AS INCOME

With interest rates higher than they've been in two decades, creating income with annuities is becoming popular

- Earmarking an amount of money in an SPIA or an annuity with an income rider allows you to withdraw a certain amount every year for the rest of your life, regardless of account performance
 - Many products increase income annually or double the amount you can get if an LTC event occurs
 - This can protect your lifestyle in negative economic years or over an extended period
- Income payouts change and the differences among companies can vary, so compare products and/or talk to a financial leader

SUMMARY

- Life insurance and annuities are powerful tools when used as part of an overall plan
 - **Life insurance** helps you guarantee an outcome, protect against LTC, and save significantly on taxes
 - **Annuities** can guarantee death benefits, protect against market losses, and provide a lifetime stream of flexible income
- These products are simply tools to help reach your financial goals and allow you to spend, protect, and realize what's possible in your life

RESOURCES

Websites

- ***LongTermCare.gov***
acl.gov/ltc
- ***Medicaid and Medicare***
medicaid.gov | medicare.gov
- ***The Institute for Financial Education***
ifeonline.org
- ***VA Healthcare***
va.gov/health-care
[Long-Term Care Services](https://va.gov/health-care/long-term-care-services)

Tools

[Cost of Care Calculator](#)

Online Articles

- Care Funding
genworth.com/products/care-funding
- FEGLI Premium Overview
(Office of Personnel Management)
opm.gov/healthcare-insurance/life-insurance/program-information
- Long-Term Services and Supports
medicaid.gov/medicaid/long-term-services-supports/index.html

Video

- A Caregiver's Guide to Finances
training.alz.org/products/4355/managing-money-a-caregivers-guide-to-finances

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