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Financial Briefs

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Insurance and Your Financial Plan

Insurance plays a vital role in your financial plan. A comprehensive insurance plan, which can include everything from auto insurance to disability insurance, helps protect you, your family, and your wealth.

Without insurance, most people would have difficultly coping with major and unexpected financial setbacks. Insurance is a reasonable way to plan for worst-case scenarios that we all hope never become reality.

In many ways, it is the bedrock that supports your overall financial security. Some might even argue that if you have to prioritize, it is more important to focus on developing a solid insurance plan before you worry about issues like investing.

Where Do I Start?

Most people already have some insurance. A typical adult with a family and a job might carry auto, life, and homeowners insurance (not to mention health insurance, which is another essential coverage).

But most people purchase their insurance piecemeal, picking up a policy here and there when they need it. Rarely do people have a coordinated insurance plan that aligns with their overall financial plan.

Thus, your first step in developing an insurance plan should be sitting down and taking an objective look at your total financial situation, perhaps with the help of a financial advisor.

Consider your age, family situation, the risks you face, and current assets and liabilities. This will help you identify areas where you might need the peace of mind that quality insurance provides.

For example, parents with young children will almost certainly want life insurance, while people who suspect there's a good chance they'll end up in a nursing home may want long-term-care insurance.

Sound complicated? It can be. Unfortunately, there is no off-the-rack or one-size-fits-all approach to buying insurance.

Evaluating Your Risk and Determining Your Needs

Determining what kind of insurance you need to protect yourself and your family begins with an honest evaluation of the risks you face. That helps you decide what kind of insurance you'll need.

But that's just the beginning. For example, if you have young children, you probably know you need life insurance. But how much is enough and what variety (whole- or term-life) is best? And what about other types of coverage? Should you buy umbrella insurance or disability insurance?

Life insurance tends to be the area where people have the most questions about whether their coverage is adequate. To determine your needs, imagine the unthinkable: How would your family survive if you were no longer there to support them? Don't just choose a big number and assume it will be enough.

Consider this: You have a life insurance policy with a $1 million death benefit that you think will be more than enough to provide for your family if you pass away unexpectedly. Tragically, you die, and your surviving spouse uses $400,000 of the benefit to pay off your

Continued on page 2

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 get through a short-term

Continued on page 3

FR2016-0413-0008

Insurance

Continued from page 1

mortgage and some other debts, pay for your funeral, and cover other miscellaneous expenses. That leaves just $600,000 for your family.

If your beneficiaries invest that sum in a fund that earns an average 5%, that translates to a monthly income of $2,500. That amount may not be enough to meet all your survivors' financial needs. And that assumes your financial situation is relatively uncomplicated. If you have children with special needs or who will be attending college soon, you may need even more insurance.

When it comes to disability insurance, you may be tempted to rely on your company's policy, but that might be a mistake. The coverage may not be as extensive as you expect, with a limited benefit period or narrow definition of disability (you may only get benefits if you aren't able to work in any occupation, not just your current occupation).

Robust disability insurance coverage is essential if you do not have the resources to replace your current income should you become unable to work.

Long-term-care insurance is another essential component of many people's financial plans. Given the high cost of nursing home care or a stay in an assisted-living facility, the need for these types of services in retirement would bankrupt many, even those with substantial retirement savings.

If you suspect you or your spouse might need such care, a long-term-care policy is one way to protect your assets and reduce the risk that you will run out of money paying for a nursing-home stay.

Clearly, insurance and financial planning are intimately intertwined. It is difficult to separate one from the other.

If you have questions about whether your current insurance coverage fits with your overall financial needs, please call to discuss this in more detail.

How Much Life Insurance Do You Need?

While health insurance has dominated the headlines for the past several years, there's an ongoing problem that is largely unnoticed by the press: millions of Americans don't have enough life insurance.

The result is often painful: inadequate life insurance coverage often means drastic changes in beneficiaries' standards of living.

Rules of thumb exist that say you should be insured for between six and 10 times your annual earnings.

For a primary breadwinner making $100,000 a year, that's coverage of $600,000 to $1 million. But there are two problems with rules of thumb: these ranges can be very wide and don't take into account your unique situation.

So the best approach to determine how much life insurance you need is to engage in some financial planning. Start by answering the following questions:

How much per year will your family need to live on and for how many years? Expenses may be greater if, for example, you have young children who require day care; expenses may be smaller if there are no dependent children among your beneficiaries.

How will that number be affected by inflation? Remember, we're talking about what could be a long period of time. At an inflation rate of 3% a year, a dollar loses 15% of its value in just six years, and about 25% after a little more than 10 years. Imagine the impact of a 25% pay cut, and you'll begin to appreciate the vital importance of factoring inflation into the equation.

Will your surviving spouse be able to work, and if so, how much will he/she earn? The amount your surviving spouse earns should reduce the life insurance coverage you need; but in an uncertain economy, it may pay to err on the conservative side when estimating a surviving spouse's earning power.

Should you think of retiring large family debts? You can reduce the amount of money your surviving spouse has to earn by providing enough in life insurance to retire such debts as credit card balances, college and personal loans, and your mortgage.

How will your children's college expenses be paid for? In addition to providing for daily living expenses, consider how higher education bills — if there are any — will be paid. Should you only provide enough in life insurance benefits to make up for annual contributions to a college fund, or should you provide enough for four years of college?

How will your surviving spouse's retirement be funded? One less person to provide for means the price of your spouse's retirement will be less. When considering how much life insurance coverage to buy, however, you should evaluate whether your policy benefits need to make up for contributions you were planning to make until you retired.

What rate of return can your surviving spouse expect to receive? Where will the unused proceeds of your life insurance benefits be invested? The rate of return earned will make a big difference in how long they last — which can make a big difference in how much coverage you buy.

When buying a life insurance policy, choosing a coverage amount can be easy — as long as you don't think the details will make any difference to your survivors. But if you do, you owe it to yourself and your loved ones to take a close look at what amount will properly secure their future if you're suddenly not around.

Please call if you'd like to discuss your life insurance needs in more detail.

What Happens?

Continued from page 1

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 funds might be your emergency fund of 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 rather than your employer) 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 of disability benefits.** However, keep in mind that 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 paid for are received income-tax free. Coordinate insurance from your employer 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 you will probably be eligible for Social Security and other retirement benefits 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 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.

Business Data

Indicator	Month-end Jun-16	Jul-16	Aug-16	Dec-15	Aug-15
Prime rate	3.50	3.50	3.50	3.50	3.25
3-month T-bill yield	0.26	0.32	0.34	0.26	0.10
10-year T-note yield	1.61	1.58	1.56	2.24	2.12
20-year T-bond yield	1.99	1.90	1.91	2.60	2.49
Dow Jones Corp.	2.78	2.54	2.51	3.43	3.33
GDP (adj. annual rate)#	+1.40	+0.80	+1.10	+1.40	+3.90

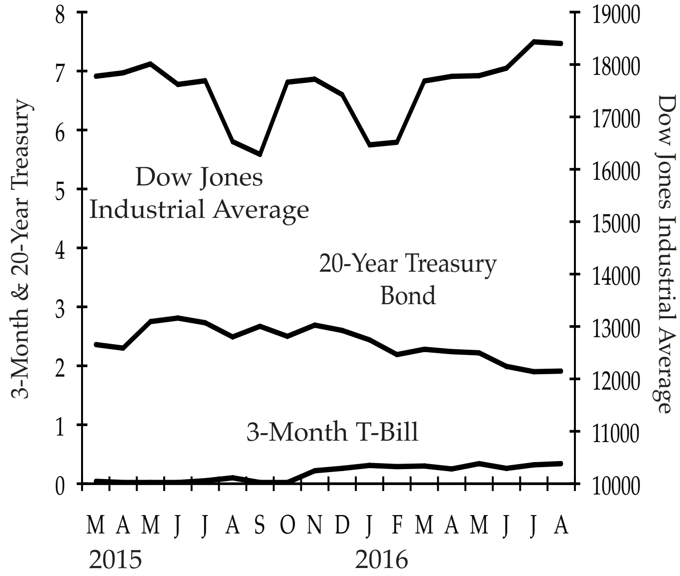
	Month-end			% Change	
Indicator	Jun-16	Jul-16	Aug-16	YTD	12-Mon.
Dow Jones Industrials	17929.99	18432.24	18400.88	5.6%	11.3%
Standard & Poor's 500	2098.86	2173.60	2170.95	6.2%	10.1%
Nasdaq Composite	4842.67	5162.13	5213.22	4.1%	9.1%
Gold	1320.75	1342.00	1309.25	23.3%	16.2%
Unemployment rate@	4.70	4.90	4.90	-2.0%	-7.5%
Consumer price index@	240.20	241.00	240.60	1.4%	0.8%
Index of leading ind.@	123.30	123.80	124.30	0.3%	0.6%

— 4th, 1st, 2nd quarter @ — May, Jun, Jul 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

March 2015 to August 2016



News and Announcements

Life Insurance for Stay-at-Home Spouses

When most people think about life insurance, they think about replacing the take-home pay earned by the family's primary breadwinner should he/she die. Yet it could be just as important to insure a stay-at-home parent.

The issue is one of valuation: how do you set a dollar figure on the contributions that a stay-at-home parent makes to a family? Start by looking at the functions he/she provides: cooking, cleaning, childcare, shopping, laundry, paying bills. How much would it cost to pay someone to provide those same services?

For a newly single parent of two children, the price of continuing to work could mean spending as much as $40,000 or more a year on childcare and household services. If you can't imagine finding that kind of additional cash flow, it makes sense to cover your spouse with a life insurance policy to pay those expenses for as many years as needed.

How to Do It

You have two choices: you can take out a ***separate policy*** on your spouse that names you as the beneficiary, or you can add a ***spouse rider*** to your own policy. The advantage of a rider is that it can be cheaper than securing a separate policy for the stay-at-home parent.

On the other hand, if your spouse dies after you do, the rider typically doesn't pay a death benefit to your spouse's beneficiary. In addition, your spouse will have no access to cash value accumulation since the policy and cash values are owned by you. And with some insurance companies, you can't secure as much coverage on your spouse in a rider as you can in a separate policy.

If there are other reasons for your spouse's life to be insured than simply replacing his/her homemaking services — like designating different beneficiaries or meeting estate-planning objectives — a separate policy might be the better choice.

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