Your Insurance Needs

Personal Financial Management Standardized Curriculum - 2010

MODULE DESCRIPTION

Your Insurance Needs is a 60- to 90-minute interactive program suitable for all audiences, designed to develop the knowledge and skills that will enable learners to make informed consumer decisions on the basic types of insurance, and to determine their personal need for life insurance.

This module has two parts. The first follows the handout, *Life-Cycle Approach to Insurance Needs*, walking learners through various life-cycle events and their influence on insurance needs. The handout reviews most major types of insurance. The goal of this approach is to help learners to understand that insurance is purchased to meet a need, and the need is usually the result of some type of life-cycle event (marriage, birth, death, retirement, etc.). The second part of the module zeros in on life insurance, explaining the major types of life insurance and walking learners through the comprehensive "Life Insurance Needs Calculator" available at <http://www.insurance.va.gov>.

Trainer's note: Due to the complexity of the subject matter and a requirement for the presenter to possess sufficient background knowledge to field questions, the content is covered in more detail than required for presentation. Be prepared to supply learners with local phone numbers for the appropriate sources of help and to offer information on relevant state automobile coverage requirements. Review the content module before presentation and update any amounts that have changed since May 2010.

LEARNING OBJECTIVES

Terminal: Upon completion of this course, learners should be able to choose appropriate insurance products to manage risk, safeguard wealth and protect assets.

Enabling

- During *the Life-Cycle Approach to Insurance* activity, learners will indicate at least two suitable insurance options for different stages of the average lifespan.

Print Module

Print Module Handouts

REFERENCES

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MODULE PREPARATION

Handouts:

- *Life-Cycle Approach to Insurance Needs*
- *Survivor Benefits -- Fact or Fiction*
- *Shopping Tips for Insurance*
- *Life Insurance Needs Calculator*
- *Life Insurance Needs Calculator Case Study*
- *Summary of Assets and Financial Obligations for AT1 George Flier*
- *Instructor's Key: Life Insurance Needs Calculator*
- *Your Insurance Needs: Organizing Your Records*

Materials (varies depending on activities chosen):

- Whiteboard or chart paper
- Blank paper
- Pens, pencils and markers
- Internet connection preferred but not strictly required

SUMMARY OF LEARNER ACTIVITIES

The Life-Cycle Approach to Insurance Needs: An interactive approach to content which highlights the fact that it is the life-cycle event that determines the need to make an insurance purchase. The bulk of course content can be taught using this activity.

Survivor Benefits — Fact or Fiction (optional): A review activity on survivor benefits using a handout or a PowerPoint game.

The Life Insurance Needs Calculator: An interactive approach to using a life insurance needs calculator using a case study.

Volunteer a Question: A review activity in which learners ask and answer questions about program content.

CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
   a. Agenda
   b. The Purpose of Insurance
   c. Managing Risk
2. The Life-Cycle Approach To Insurance Needs (30-40 minutes)
   a. Learner Activity: The Life-Cycle Approach to Insurance Needs
   b. Single in Quarters
   c. Moving Off-Base
   d. Buying a Car
   e. Getting Married
   f. Having Children
   g. Buying a Home
   h. Increasing Assets
   i. Divorce
   j. Retirement/Separation
   k. Death
   l. Optional Learner Activity: Survivor Benefits – Fact or Fiction?
   m. Shopping for Insurance
3. Life Insurance (20–40 minutes)
   a. Learner Activity: The Life Insurance Needs Calculator
   b. How much and what type?
   c. Term Insurance
   d. Permanent Insurance
   e. Comparison of Term and Permanent Insurance
   f. Common Mistakes When Purchasing Life Insurance
   g. Annuities as investments
   h. Organizing Your Records
4. Summary and Conclusion (5 minutes)
   a. Learner Activity: Volunteer a Question
   b. Conclusion

CONTENT

WELCOME AND INTRODUCTION

SLIDE 1

Imagine yourself sitting on your couch and think about all of the items around you; your TV, DVD player, furniture, electronics. Do you have a mental picture? If there was a fire in your home and you lost everything, would you be able to replace it? Do you have the money in the bank or sufficient insurance to cover this loss? Now think about your car and the potential hazards you face each time you drive. Would your current automobile insurance cover all of your expenses if you were in a car accident? Does your insurance provide protection for medical costs resulting from an accident?

AGENDA

SLIDE 2

Although it may be difficult to think about potential loss, you can give yourself tremendous peace of mind by preparing for unanticipated events and hazards. This class will cover the different types of insurance protection available to help you manage the risk of potential losses. We will take a common-sense approach to how, when and which product to purchase which is commonly referred to as the life-cycle approach to insurance.

THE PURPOSE OF INSURANCE

SLIDE 3

The purpose of any insurance is protection from financial loss. Life, health, auto, homeowners, renters and long-term care insurance products are all designed to protect you from losses you cannot afford to cover yourself. Insurance allows an individual to substitute a small known cost (the premium) for a large unknown financial loss (the contingency insured against). All policies have limits, which define the maximum amount you will be paid for the loss.

MANAGING RISK

For the purpose of insurance discussions, risk can be defined as the probability of damage, injury, loss or liability. There are several ways to manage the various risks that we are all exposed to. One way to do this is to avoid the risk all together. For example, if you are concerned about the risk of drowning, maybe you should avoid purchasing a home with a pool. A second way is to reduce the risk. For example, taking a defensive-driving course will reduce the risk that you will get into a car accident. You can also retain a risk. This means that you are willing to pay for whatever financial loss occurs (usually smaller losses).

For everything else, you can transfer the risk, which means you pay an insurance company a premium for the promise that they will pay for a larger loss that may or may not occur. To avoid and reduce the risks, you pay for the losses you can afford and insure whatever is left. So, what do we have left and when do we insure it?

THE LIFE-CYCLE APPROACH TO INSURANCE NEEDS

Learner Activity: The Life-Cycle Approach to Insurance Needs

Purpose: To illustrate two suitable insurance options for different stages of the average lifespan.

Time: 30 minutes

Materials: The *Life-Cycle Approach to Insurance Needs* handouts, chart paper and markers

Procedure: Divide the class into 10 pairs or small groups. Assign each group a stage of life from *The Life-Cycle Approach to Insurance Needs* handout, but do not distribute the handout. Have each group brainstorm insurance needs for their stage in the life-cycle, taking into consideration the previous stage in the cycle. Tell learners that they should list at least two types of insurance for their stage. Ask for a member of each group to report and record the responses on the board or a sheet of chart paper. After completing all 10 life events, provide *The Life-Cycle Approach to Insurance Needs* handout to the learners and congratulate them on their ideas. Follow up by going through Slides 4 through 15 and provide greater detail on the insurance need for each life event. Revisit the responses list at the end of this segment and ask learners to note anything they would add or delete from their original lists.

SLIDE 4

All of us go through a number of major events in our lives that affect our insurance needs. We all start out single and then go through a progression of different housing situations, family situations, accumulation of assets, retirement and, ultimately, death. Insurance planning begins with a detailed assessment of your insurance needs and reviews each life event and the insurance requirements that go with it. Some insurance products, such as health and disability, are provided to you while your remain on active duty. Other types of insurance are partly or totally the responsibility of each individual. Let's take a look at major life-cycle events and explore how we can use them to make the best insurance purchasing decision.

SLIDE 5

Single in Quarters

"I don't need any insurance. I live in government quarters. I don't even have a car."

Insurance Needs:

Life insurance: Single, no dependents: Nobody suffers any real financial consequences; therefore the need is not present (beyond covering one-time expenses such as burial costs and any outstanding debts). However, most sailors are covered by Servicemembers' Group Life Insurance (SGLI).

Government quarters: Most single service members living in barracks or on a ship will argue that they do not need renter's insurance because they do not have a lot of items that would need to be replaced if lost. But think about what it would cost just to replace the items in your sea bag. What would it cost to replace your iPod, cell phone and other personal items? You need renter's insurance. The government insures the building but may not always cover your losses. Check with the base housing office to find out what is covered. Talk with your insurance company to make sure your possessions are covered while residing in the barracks or on a ship.

Renter's insurance: Many service members have no protection against loss if their personal property is destroyed or stolen. Those who fail to purchase renter's insurance can face a double problem. Not only do they lose their possessions, but the creditor will expect the payments to keep coming in. Renter's insurance is relatively inexpensive, usually less than $25 a month depending on coverage. Once you have your property insured, take an inventory and keep a copy of the list somewhere safe (not at home). Photographs or video of your property may help in getting a full value settlement.

Replacement cost coverage: Replacement cost coverage will pay fully to replace lost items. Actual cash value will only pay the depreciated value of the items. Always ask for replacement cost coverage!

Personal property: Some personal property, particularly high-cost items like jewelry, guns, collectibles, sporting gear or computer equipment, is usually not fully covered under a standard policy; you may need a special rider or even a separate policy. If your personal property is not adequately covered, purchase a rider to an existing policy or a separate personal property policy. (A rider is like a mini policy added to a bigger policy to cover specific items.) Make sure you know what is and is not covered and the policy limits. This is the case with both homeowner's and renter's policies.

Personal liability and medical payments to others: Personal liability insurance covers you when you are held responsible for the losses of others arising from your own negligence. This is included in renter's insurance policies and can be increased if needed. Medical payments pays for medical expenses for those injured while visiting your home.

Life insurance: Servicemembers' Group Life Insurance (SGLI) is a program of low-cost group life insurance for service members on active duty, ready reservists, members of the National Guard, members of the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Public Health Service, cadets and midshipmen of the four service academies, and members of the Reserve Officer Training Corps. SGLI coverage is available in $50,000 increments up to the maximum of $400,000. Premiums are currently 7 cents per $1,000 of insurance, $28 per month for full coverage, regardless of the member's age.

Traumatic Injury Protection under Servicemembers' Group Life Insurance (TSGLI): Every member who has SGLI also has TSGLI effective Dec. 1, 2005. This coverage applies to active-duty members, reservists, National Guard members, funeral honor duty and one-day muster duty.

SLIDE 6

Moving Off Base

"I commute to work with a friend, and I am just buying some furniture on credit. Since I don't have much, I don't need insurance to cover it."

Insurance needs:

Renter's insurance: Renter's insurance is necessary to replace your possessions. Without it, you could end up continuing to make payments on that new furniture that was lost in the fire, as well as trying to replace it with new.

SLIDE 7

Buying a Car

"I am buying a car with a big monthly payment; there's no way I can afford insurance. I'll just take my chances."

Insurance Needs:

There are four basic areas of auto insurance coverage.

1. **Liability:** refers to your responsibility for other people's losses, both property damage and bodily injury. It is written as three numbers. For example: 100/300/50 means $100,000 in bodily injury coverage per person, $300,000 in bodily injury coverage per accident and $50,000 in property damage coverage per accident.
2. **Collision and comprehensive coverage (physical damage):** if you cause an accident, collision will pay to repair your vehicle (the actual cash value, not the replacement cost). Comprehensive pays for damages to your car not caused by an accident; fire, tree fall, theft, etc. Your insurer will only pay as much as the car was worth when the event occurred, not the cost of a new car.
3. **Uninsured/underinsured motorist coverage:** Protects you if you are in an accident with a hit-and-run driver or someone that is uninsured or underinsured. This is a important coverage and mandatory in some states. Despite laws requiring auto insurance, many drivers chose to go without.
4. **Medical payments:** covers you and your passengers for injuries, no matter who is at fault.

Trainer's note: Research the state requirements for auto insurance per person, per accident, property damage and medical payments and provide that information here. Refer learners to a Car Buying Strategies class at the FFSP if they are thinking of purchasing a car.

Optional features include: rental car reimbursement, towing and labor, gap coverage (pays the difference between the actual cash value and the amount left on your loan if your vehicle is totaled, usually used with leased vehicles).

Most states require drivers to purchase automobile liability insurance, and most young military drivers purchase only the minimum coverage required. However, those with assets to protect should seriously consider increasing their level of protection. If you want to protect yourself from big repairs or a possible lawsuit, you will want to buy more than what is required.

Purchasing auto insurance from a dealer is generally not recommended. This insurance is typically collision coverage only and protects only the lender's interest in the car. You will still need liability coverage to register the car on base. Usually, the best solution is to investigate insurance coverage from several companies before going to purchase the vehicle. And since premiums can vary greatly from company to company, checking out several companies will help you find the best insurance at the best price.

SLIDE 8

SLIDE 9

Ways to save:

- Select higher collision and comprehensive deductibles. This is the out-of-pocket expense you will pay for repairs. Many consumers find a deductible of $500 to $1,000 to be more cost-effective. Call and find out what savings will be at varying levels. When opting for higher deductibles, make sure you have emergency funds to cover potential repair costs.
- If you have a second car and could afford to replace it or to do without it for a while, you may wish to drop collision and comprehensive coverage on that car entirely. Compare the Actual Cash Value (ACV) of your vehicle to the premium cost of collision and comprehensive to help you decide.
- A safe driving record helps to minimize insurance costs. For very small claims (or only slightly higher than your deductible) that involve no injuries to anyone, consider not filing for reimbursement; the increase in premium for having the accident may cost more than the amount you receive to cover the repairs!

- Drivers should be very selective when lending their cars.
- Maintain coverage while on deployment. Some companies will allow continued coverage at a reduced rate while deployed. Contact them and let them know your car will be "off the road." If you drop coverage, your rates will likely go up when you reinstate it. If you still owe money on the vehicle, the creditor will require you to maintain coverage.
- Coordinate coverage. Many companies give discounts to customers who buy multiple policies.
- Ask about discounts. Many insurers will give discounts for added safety features, like antilock brakes, side air bags, alarms, etched windows and other anti theft devices.
- Check your credit report. Insurance companies use credit scores in determining your rates. Make sure your credit report is accurate.

GETTING MARRIED

"Wow, this is such a big step, with so many things to consider. I don't want to think about those negative things right now."

Insurance Needs:

- Renter's: Review and adjust as necessary. Add spouse's possessions to policy.
- Auto: Review and adjust as necessary. Add spouse and spouse's vehicle.
- Dental: Sign your new family up for the TRICARE Dental Program.
- Health: Sign up in the Defense Eligibility Enrollment Reporting System (DEERS). Use the TRICARE system for lowest costs. Consider a supplemental policy if you live far from military treatment facilities.
- Life: If someone depends on your income, review your plan and determine your needs. FSGLI offers inexpensive spousal coverage.

Health insurance: While on active duty, all of your health care and most of your family member's care is covered at no cost to you by TRICARE. In order to be covered, your dependant family members must be enrolled in DEERS by you and then be enrolled in the TRICARE program. TRICARE has three options; Prime, Extra and Standard.

It is a good idea to consider a TRICARE supplemental policy, particularly when approaching retirement. This is especially true if you will be retiring to an area that is not near a military treatment facility, plan to use TRICARE Standard or expect particularly high medical expenses out-of-pocket. The Navy Times has a special TRICARE issue each year that includes information on the many supplemental policies available

Life insurance: Do you need more insurance at this point? That depends on your family situation.

The purpose of life insurance is to protect those who depend upon you financially, should you die. The single most important reason to have life insurance is to replace one's income. It can also provide funds to pay off a mortgage, eliminate debts, pay educational costs or any other financial need. If you have dependents or expect to acquire them, you probably need life insurance.

Married, one income, no children: One spouse is financially dependent on the other. Insurance would be needed to provide for the non-working spouse during an adjustment period and possibly longer depending on education, employment potential and health.

Married, dual income, no children: In this situation, since both spouses are working, the major consideration will be providing money to pay off debts they share and final expenses such as medical and funeral costs. Dual-income couples often have more debts as well as more money.

One thing you must remember is that all insurance policies have a beneficiary designation form. The death benefit will be paid to the person specified on the form. It is important to change your beneficiary form for your SGLI if you want your current spouse to receive the money when you pass away.

Trainer's note: Additional Instructor Information on FSGLI — you should be familiar with this information in case questions come up during the presentation.

Cost: The monthly premiums for coverage for a spouse are based on the spouse's age and amount of coverage. This is not the least-expensive term insurance available, but it is the easiest. SGLI coverage for children is free. Coverage will continue, at no extra cost to you, for 120 days following your separation from service. You will pay no premiums for your children, since coverage for them is free.

Termination: Coverage for your spouse will end 120 days after any of the following events:

- The date you elect in writing to terminate your spouse's coverage.
- The date you elect in writing to terminate your own coverage.
- The date of your death.
- The date your coverage terminates.
- The date of your divorce.

However, your spouse can convert coverage to a permanent policy with a commercial company. Coverage for your children ends 120 days after any of the following events:

- The date you elect in writing to terminate your coverage.
- The date you separate from service.
- The date of your death.
- The date your child is no longer your dependent.

Beneficiary: The beneficiary of the spouse and the child coverage will be the member. If the member were to die before payment could be made, the proceeds of a spouse or child claim would be paid to the member's beneficiary.

Current Spousal Premium Rates Per $1,000 of Coverage (July 2010)

Age of Spouse						
Under 35	**35-39**	**40-44**	**45-49**	**50-54**	**55-59**	**60 & Over**
$0.05	$0.065	$0.085	$0.13	$0.25	$00.37	$0.52

SLIDE 11

HAVING CHILDREN

"I have a new baby. I'm supposed to be responsible, but I don't even know where to begin."

Insurance needs:

- **Life:** Your needs will increase with the long-term financial responsibility of raising children. In addition, insure the other parent. Family SGLI (FSGLI) is available up to $100,000. Children under 18 are automatically covered for $10,000 under FSGLI.
- **Health:** Add child to DEERS and Page 2.
- **Dental:** Wait until the child has teeth or needs to begin care (usually age 2-3), then change your enrollment to the full family plan.
- **Auto:** Review and adjust as needed.
- **Renter's:** Review and adjust as needed.

Life Insurance: Now your needs will really change. Consider a few of the issues.

Married with children: This is the time of greatest need for life insurance. Regardless of employment status, the surviving spouse is generally going to have a significant need for additional funds to offset the loss of the other spouse's income while the children are living at home or are in college. Serious insurance planning is needed for both spouses, even if one is not currently employed. Consider the costs of child care if an active-duty military member is the surviving spouse. When the spouse is nonmilitary, there could be a need for additional life insurance, because FSGLI benefits alone may not be sufficient.

Single parents: Single parents will want to consider who will take care of the children, if they (the parent) die. A significant consideration when designating a guardian should be the guardian's ability to provide for the children's financial needs. Adequate insurance should be in place to compensate the guardian for the additional expenses of raising the children.

Children: Unless your child provides significant income to the home, the financial consequence of their death would be medical and burial expenses only. FSGLI provides $10,000 per child at no cost to you.

SGLI Family coverage (FSGLI): SGLI Family coverage is available for the spouses and children of active-duty service members. Spousal coverage is available in $10,000 increments up to $100,000 and cannot be greater than the service member's coverage. Premiums for spousal coverage are deducted from the member's monthly pay. Any dependent child under the age of 18 is automatically covered under family insurance which is limited to $10,000. In addition, children between the ages of 18 and 23 who are full-time students are covered.

SLIDE 12

BUYING A HOME

"I've just made the biggest purchase of my life. Now I want to protect my investment and find a way to pay off this debt if something happens to me."

Insurance needs:

- **Homeowner's insurance:** Required by your lender to cover both the property and your personal possessions. This includes the liability coverage for someone injured on your property.
- **Life:** Needs increase again based on the mortgage you are carrying. To pay off the mortgage in the event of your demise, you will need to carry more insurance.

Homeowner's insurance: When shopping for home insurance, there is much more to consider than how much your coverage will cost. You need to buy the right type of policy. You need the proper level of protection, plus special provisions for valuables such as jewelry, computer equipment and other possessions. You might also need additional coverage for such things as earthquakes or flooding.

Standard policy: Most homeowners purchase a standard HO-5 (homeowners) "all risks" policy. This covers property damage to the home, damage to contents, liability against damages to others while on your property, and expenses if you are displaced for some time. Standard policies provide the same coverage regardless of which company issues them; the only real difference is the cost. Like renters, homeowners should buy replacement cost coverage, not actual cash value.

Other coverage: Homeowner's insurance does not cover certain types of damage (including earth movement, water damage, power failure, neglect, war, nuclear accident or intentional damage.) Most of these perils can be covered by a separate policy specific to that issue, such as earthquake insurance. Water damage—flooding— is the most common of these other damages. Insurance against damage due to flooding is required (and expensive) in high-risk areas. However, it is generally inexpensive elsewhere, and often a wise purchase. Flood insurance is offered under the Federal Flood Insurance Program. Even though it is sold through commercial companies, the cost will be the same regardless of which company you buy from; it is the one type of insurance for which comparison shopping does no good.

Take inventory: Once you have your property insured, take an inventory and keep a copy of the list somewhere safe. Photos or videos of each room and its contents will help you to settle a claim in the event of a loss. Do not wait until the fire to find out if you have enough coverage. Take an inventory to help you decide how much insurance you need.

SLIDE 13

INCREASING ASSETS

"I am finally starting to accumulate some possessions and put money aside in investments. Now I worry about how to protect these assets from a lawsuit."

Insurance needs:

- **Umbrella policy:** This is in addition to your homeowner's and auto insurance. It covers you above the limits of these policies for your liability in a lawsuit.
- **Long-term care:** Designed to cover nursing home and in-home care over longer periods of time.
- **Homeowners:** Review and adjust as needed.
- **Auto:** Review and adjust as needed.
- **Life:** Review and adjust as needed.

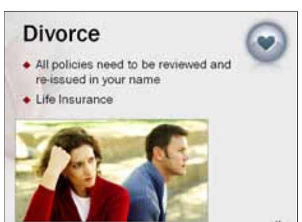
Trainer's note: A full discussion about Long Term Care Insurance is beyond the scope of this presentation. However, recommend that interested parties contact the LTC program for details at <http://www.ltcfeds.com> or 1-800-582-3337.

Umbrella insurance: An umbrella policy protects against loss in the event of a large damage award in a lawsuit, over and above the limits of an auto or homeowner's liability policy. Those with substantial assets to protect should consider an umbrella policy, as should anyone who may face particular risks. This could include owning an in-ground swimming pool, having a potentially dangerous dog for a pet or regularly transporting other neighborhood children in your van. You usually are required to have $300,000 to $500,000 of insurance coverage on your regular policies before qualifying for an umbrella policy. In addition, insurers require that you have both your homeowners and auto policies with them. A $1 million umbrella policy can often be purchased at a relatively low cost (under $150 per year), and could prevent someone from taking years of your future income in a judgment. Members with few assets to protect probably do not need an umbrella policy.

Long-term care insurance (LTC): Will long-term care costs wipe out your assets? LTC insurance is designed to help protect your assets in case you need nursing or in-home care.

Military program: Long-term care insurance is available to service members, retirees, spouses and certain other family members under the Long-Term Care Program. The federal government sponsors the program, but it does not pay for it. Learners choose the time period for which they will receive benefits as well as the daily benefit amount. There are a variety of options available in this program and premiums will vary based on the options chosen. For most people, Medicare and medical insurance does not pay for long-term care. This program needs to be thoroughly researched and understood in order to make a decision on participation.

When to buy: Industry experts recommend considering this coverage between ages 50 and 55.



SLIDE 14

DIVORCE

"My spouse said she would continue to cover me on the auto insurance policy, but now it's been canceled. What should I do?"

Insurance needs:

- All policies need to be reviewed. Be certain to have your own policies, in your own name, for all of the areas of insurance.
- **Life:** It is time to re-evaluate how much you need. What expenses are you required to cover and what plans have you made for any children? Review and update beneficiary designation (which is different from your Page 2).

SLIDE 15

RETIREMENT/SEPARATION

"I am getting out of the military in a few months. Will my insurance needs change?"

Many of the benefits you have had at little or no cost through the military must now be covered on your own. Your new employer may provide some benefits if you continue to work. However, in most cases you will have a cost share.

Insurance needs:

- **Life:** You have three options. SGLI can be converted to VGLI (Veterans Group Life Insurance) at a much higher price. You can convert your SGLI to permanent insurance on a guaranteed basis with one of 54 different commercial companies listed at <http://www.va.gov> or, if you are in good health, you can apply for new insurance.
- **Health/dental:** Personal health policies can be expensive. Consider your employer's policy if available. You must enroll in TRICARE as a retiree, and there will be costs attached. You may need a supplemental policy even if you are eligible for Medicare/Medicaid.
- **Disability:** This will replace a portion of your income should you be injured or become ill and are unable to work for an extended period of time. May be provided by your employer or purchased on an individual basis.
- **Homeowner's:** Review and adjust as needed.
- **Auto:** Review and adjust as needed.

Disability Insurance: Could you continue to pay your bills if you were injured or suffered a long-term illness? Did you know that prior to age

60, you are more likely to become disabled than to die in any given year? While on active duty you have disability coverage, but when you get out, you need to look at this again. Industry experts recommend minimum disability coverage of 60 percent of your annual income, but consider 70 percent to 80 percent based upon your expenses.

If your spouse works and you rely upon that income for family needs, make sure you review your spouse's disability coverage as well.

Disability income insurance can be obtained through an employer's group insurance policy or an individual plan. If an employer pays the group disability insurance premium, disability benefits will be taxed when you receive them. When you purchase individual disability insurance with after-tax dollars, disability benefits are received tax free. Your options to cover living expenses should you become disabled are:

- **Savings:** The majority of families have less that $5,000 in savings.
- **Social Security Disability:** 70 percent of those who apply are rejected.
- **Sell your home:** 48 percent of foreclosures are caused by disability.
- **Borrow:** Access to credit will be based on your income.
- **Live on your spouse's income:** Many families depend on two incomes already.
- **Disability Insurance.**

SLIDE 16

DEATH

"My spouse just passed away. What can I expect financially now?"

Survivor benefits for active duty: Active-duty members have a number of benefits provided by the government. These must be included in any consideration of insurance needs. Separatees must depend on the policies they have put in place. Retirees will have burial benefits, Social Security and SBP as well as their own policies.

Death Gratuity: $100,000 paid within 72 hours.

SGLI: Standard $400,000. This coverage can be decreased or even declined entirely by the service member. It could be difficult to find a better

Trainer's note: Before showing this slide, you may want to conduct the Optional Learner Activity that follows. Otherwise, the slide contains information on these benefits. Update all survivor benefit amounts before presenting this slide. The Department of Veterans Affairs handles DIC and many other survivor benefits programs. Rates can be researched at <http://www.va.gov>. For information on SBP, refer to the OSD Military Compensation website <http://militarypay.defense.gov/>. Update Veterans Affairs educational benefits at <http://www.gibill.va.gov>.

deal elsewhere though. Military occupations are considered "high risk," which means that a traditional policy may not cover you if you die accidentally. Remember that the beneficiary of the policy, the one who will get the money, is determined by you. This is separate from your will.

Dependency and Indemnity Compensation (DIC), provided by the Department of Veterans Affairs: This is $1,154 (2009) per month, payable to a surviving spouse. DIC is adjusted annually in accordance with the cost of living and is income tax free. An additional benefit of $286 will be paid monthly for each child (2009). These benefits must be applied for.

Social Security: $255 lump sum payment and, if the surviving spouse has children 18 or under, the family will be eligible for one or more monthly checks from Social Security. The benefit amount depends on the worker's earnings history. Individuals receive an estimate of Social Security benefits yearly.

Supplemental VA educational benefits: Educational benefits are available to a surviving spouse for up to 20 years after the service member dies. Children are also eligible to use these benefits between ages 18 and 26.

SBP: This is like insurance on your retirement pay. It is provided at no cost while on active duty but must be paid for at retirement. The amount you receive is based on your retirement pay and the benefit amount chosen. Any SBP payment to the spouse will be offset by the amount of DIC received. Child DIC payments do not affect SBP payments.

Other benefits: The military will pay the cost of a basic funeral and provide transportation for family members. The family will be provided a no-cost final move and receive BAH or permission to live in housing for 12 months, and be paid for any accumulated leave or arrears in pay.

All of the above taken together provide the foundation for a sizable estate for the average service member. In fact, the U.S. government is often said to be the best benefit-paying corporation in the world (if a member dies on active duty)!

Optional Learner Activity: Survivor Benefits — Fact or Fiction?

Purpose: To present or review content material on active duty survivor benefits.

Time: 10 minutes

Materials: The material for this activity can be presented using the PowerPoint game or conducted manually using the *Survivor Benefits — Fact or Fiction* handout.

Procedure: First choose your presentation method. This activity can be used to present the content material on active-duty survivor benefits or as a review activity.

Game Option: The PowerPoint game is Tic-Tac-Toe. Divide the class into two teams, X's and O's. The team will provide the response as either fact or fiction in answer to each question. Detailed explanation of the correct responses follows.

Handout Option: Distribute handouts and complete as a large group or have learners complete it independently and then review as a class.

Answers:

1. An immediate gratuity will be paid to my survivors, usually within 36 hours.

   FACT: This is called the "Death Gratuity."

2. SGLI will be paid to my spouse or next-of-kin immediately upon confirmation of my death.

   FICTION: The death benefit of any insurance policy will be paid to whomever you have listed as your beneficiary. It is not controlled by your will. Keep this information current if you marry or divorce.

3. Any unused leave or arrears in pay is lost at the time of my death.

   FICTION: Payment is made to survivors for all of the member's unused accrued leave and any arrears in pay (for example, you die on the 10th, you are due pay from the 1st to the 10th).

4. My spouse and any children will receive monthly compensation from the government.

   FACT: This is called Dependency and Indemnity Compensation (DIC) and is a truly great benefit!

5. Social Security provides survivors benefits to both my spouse and/or my children.

   FACT: Social Security provides a $225 payment, and if the surviving spouse has children 18 or under, the family will be eligible for one or more monthly checks from social security.

6. Paying for my funeral is the responsibility of my family. The government does not provide any financial assistance in this area.

   FICTION: The government will reimburse up to $7,700 of expenses for the member's burial. They will provide up to $2,000 if the remains are not recoverable. For retirees, this changes to $300 toward burial and funeral expenses and $300 toward plot interment, or $2,000 if the veteran's death is service-connected.

7. My family must vacate housing or will lose BAH within 180 days of my death.

   FICTION: Survivors are provided rent-free government housing or retain BAH for 365 days.

8. My family will be provided a no-cost final move.

   FACT: Survivors are also entitled to a transportation, per diem and shipment of household goods.

9. The government will provide a flag, headstone and a burial spot in a national cemetery.

   FACT: This benefit is provided through the Department of Veterans Affairs.

10. My survivors are guaranteed acceptance at any college which receives federal funds.

    FICTION: Guaranteed college acceptance is not an educational benefit provided to survivors.

11. My family will be provided transportation to and from my funeral.

    FACT: The government will provide travel for next-of-kin under invitational travel orders.

12. My children will receive free child care at on base Child Development Centers while my spouse attends college courses.

    FICTION: No such care is guaranteed.

13. My dependents will lose their commissary and exchange privileges at the end of one year.

    FICTION: Surviving spouses and dependents are eligible to shop at military facilities and retain that privilege until the spouse remarries or children are no longer qualified as dependents.

14. VA provides a survivors' and dependent's education assistance program that provides monthly payments for college enrollment.

    FACT: This is called Survivors' and Dependents' Education Assistance (SDEA)

15. The Survivors Benefit Program will pay my spouse or children a portion of my monthly retirement pay.

    FACT: Active-duty members are covered by SBP at no cost until retirement.

16. A surviving spouse gets both SBP and DIC.

    FACT: However, the SBP amount is offset by the DIC amount.

17. Retiree's survivors get the same survivor benefits as active-duty survivors.

    FICTION: The benefits for the survivors of retirees are dramatically different from the benefits for survivors of active duty. Go to the VA website for specific information.

18. A surviving spouse continues to receive all survivor benefits, even upon remarriage.

    FICTION: Many of the benefits a surviving spouse receives stop upon remarriage. DIC, for example, ceases for the spouse if remarriage occurs before age 57. NEX and Commissary privileges cease upon remarriage as well.

SLIDE 17

SHOPPING FOR INSURANCE

The handout *Shopping Tips for Insurance* offers many ideas on keeping insurance costs down. Remember, it is your money. Do not be talked into purchasing more than you need or a product you do not understand.

- Know what you need. Do not automatically rely on what an agent says you need.
- Comparison shop. Look at the costs and benefits of several different policies and types of policies.
- Understand your policy. Ask the agent lots of questions. Read the fine print!

Trainer's note: Distribute the *Shopping Tips for Insurance* handout.

SLIDE 18

LIFE INSURANCE

Trainer's note: Before continuing to life insurance, revisit the responses list from the Life-Cycle activity and ask learners to note anything they would add or delete from their original lists.

Learner Activity: The Life Insurance Needs Calculator

Purpose: To illustrate how to use a life insurance calculator to determine an appropriate level of life insurance.

Time: 20 minutes

Materials:

- Internet connection
- Handouts:
  - *Life Insurance Needs Calculator* (if no classroom internet available.)
  - *Life Insurance Needs Calculator Case Study*
  - *Summary of Assets and Financial Obligations for AT1 George Flier*
  - *Instructor's Key: Life Insurance Needs Calculator*

Procedure: Choose your presentation method below.

Internet method: Ideally, an Internet connection is available in the classroom so you can give a live demonstration of the calculator. Go to www.insurance.va.gov. Click on the Insurance Needs Calculator on the left, then click on Use the Life Insurance Needs Calculator. Use the AT1 George Flier case study to explain the use of the calculator and determine this hypothetical service member's life insurance needs. Once you have calculated the need, click on the view summary link to show the "Total Needs" information at the bottom. You will find it helpful to have the completed printouts available. Be sure to practice with the calculator before presenting this workshop. Note that if you use the numbers in the case study, the results show that AT1 Flier currently has adequate coverage.

Handout method: Provide each learner with the blank *Life Insurance Needs Calculator* and case study handouts. Have each learner determine the life insurance needs of AT1 George Flier. Learners can work individually or in groups, or the exercise can be done as a whole group. Write on the board the Total Financial Obligations, Total Income Needed, Total Assets and Your Insurance Needs figures from the Instructor's Key handout.

<u>Discussion:</u> Explain that the easiest way to know how much life insurance to purchase is to conduct a needs assessment. There are many life insurance needs calculators, and the VA provides one specifically for military members. By looking at your family's financial needs, your own assets that can be used to provide for them, and any gap that may exist between the two, you will zero in on the amount of additional insurance you need. When all existing benefits are taken into account, you may decide that you have little or no need for additional life insurance. Once you know how much you need, you then need to find the right product to meet that need. Encourage all learners to spend some time putting their personal information into the calculator and assessing their own need for additional life insurance coverage.

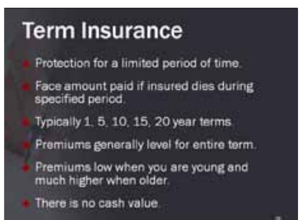
SLIDE 19

How much and what type?

As we have seen, life insurance needs vary during your life. Some needs will be short-term (provide income until children graduate) and some long (covering funeral expenses and personal debt). In young adulthood, the need for life insurance is minimal if you have no dependents. When you marry, and after your children have grown up and are independent and you have acquired other assets, the need for life insurance declines and possibly disappears.

Figuring how much life insurance to purchase (if any) is relatively easy to determine with the many needs calculators available on the Internet. The VA provides an excellent calculator specifically designed with the military member in mind. These calculators look at existing assets, employer-provided benefits and insurance you currently have, and determine whether they will cover the financial needs that will result from your death. If they do, you do not need additional insurance. If they do not, the calculators will tell you how much additional insurance you need to purchase. Your next decision, then, is which type of policy will best meet your needs.

There are many different life insurance products. Some are perfect for shorter-term needs (needs that have a beginning and an end) and some are perfect for perpetual needs (providing a stream of income for a spouse or providing for burial needs.) By considering your position in the life cycle and the specific need you want covered, you can zero in on the most appropriate product to use. The expenses you will need to cover throughout your life may be best covered by permanent insurance (also referred to as “whole life”), while those of limited duration may be best covered by temporary insurance (also referred to as “term”).



SLIDE 20

TERM INSURANCE

Term insurance provides protection for a limited period of time (the term of the policy). The face amount will be paid if the insured dies during the specified period. Nothing is paid if the insured survives. Term insurance is purchased for one-, five-, 10-, 15-, 20- and even 30-year periods.

Premiums for one-year term plans increase annually. For five-, 10-, 15-, 20- and 30-year plans, the premiums generally remain level for the entire term. Some term plans allow you to renew for an additional term. You may also be able to convert your term policy to a permanent insurance plan sometime in the future on a guaranteed basis. Make sure you understand the options. Term insurance is referred to as “pure” insurance; you pay only for the cost of insurance, no frills.

Example: Statistics tell us that 1.07 percent of 21-year-old women will die. If we have a group of 100,000 21-year-old women and want to provide each of them with $1,000 of life insurance for the year, we need to collect $1.07

from each to cover the 107 ($107,000) deaths in the year. At age 25, as the percentage of deaths increase, we need to collect $1.16 from each member to provide the $1,000. At age 40 the cost increases to $2.42. At age 50 it is up to $4.96. When the members of this group are age 70 the cost has reached $22.11! It is easy to see that term insurance becomes prohibitively expensive when death becomes more likely to occur.

Term insurance is a good way to provide much-needed protection when you are young and have financial obligations. It is also a good buy if you want permanent insurance but cannot yet afford it. SGLI and FSGLI are both term insurance. If you die during the term, the face amount is paid to your beneficiary.

SLIDE 21

PERMANENT INSURANCE

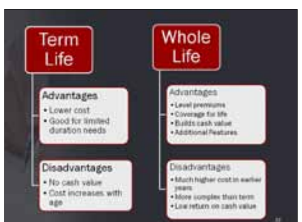
Unlike term insurance, which covers you for a certain time period, permanent insurance covers you whenever you die. There are many types and variations of permanent insurance. All feature a cash value component. The three most common are whole life, universal life and variable universal life.

Whole life: Premiums for whole life insurance are much higher than term in the early years. The higher premiums are used to cover the small amount needed for "pure insurance," and the rest is set aside in reserve to offset increasing costs in the future. This reserve money (cash value) is invested conservatively and belongs to the insurance company until the insured surrenders the policy, borrows it or dies. If the company finds that it did not need the entire premium charged, it may return it to the insured. This return of unused premium is called a dividend. Insurance policy dividends are not taxed and can be received in cash, used to buy paid-up additional insurance, purchase term insurance, or held by the company and receive interest. The dividends also can be used to pay future premiums. Once in place, a whole life policy remains in place for as long as you pay the premiums, normally for the whole life of the insured.

Universal life: Universal life became popular in the 1980s. It offers more flexibility to the policy owner in setting premium amounts and death benefit options. Another feature of universal life is that all policy costs are fully disclosed, offering a transparency not available with other forms of insurance.

The premium is deposited into an interest-sensitive fund (accumulation fund). The insurance company periodically withdraws money from the fund to cover term insurance costs, company expenses and any other policy-related fees. The excess premium dollars continue to earn interest. Similar to whole life, the accumulated money can be borrowed or withdrawn at the discretion of the policy owner. As long as enough money remains in the fund to cover term insurance charges and company expenses, the policy stays in force. Of course, it is important to understand your policy as each company has its own unique rules and requirements. Universal life also allows the insured to increase (with company approval) or reduce the policy face amount as needs change.

Variable universal life: Variable universal life is similar to universal life except that, in addition to an interest-sensitive fund, it offers the policy owner the option to invest in mutual fund sub-accounts to achieve a potentially higher return than whole or universal life. This type of policy carries higher risk as it is subject to market fluctuations. Potential buyers should be mindful of fees relating to the investment accounts. Make sure to ask for a prospectus. Insurance agents selling variable universal life must be securities licensed.



SLIDE 22

COMPARISON OF TERM AND PERMANENT INSURANCE

Term life insurance advantages:

- Less costly, particularly in the early years, when the purchaser is young. This is the time when the need for the insurance is normally greatest.
- Useful for limited duration needs such as a mortgage or education expenses.

Term life insurance disadvantages:

- Cost increases steadily with age.
- There is no cash value buildup.

Whole life insurance advantages:

- Premiums remain level.
- Insurance coverage is for life as long as premiums are paid.
- Builds cash value, which may be used later.
- Loans can be taken against the cash value at a low interest rate, but this option will reduce the death benefit by the amount of the loan.
- Often, additional insurance may be purchased without evidence of insurability.
- Cost-effective way to purchase insurance you intend to keep long-term.

Whole life insurance disadvantages:

- Far more expensive than term policies, particularly when an individual is young.
- Since insurance and savings are "bundled" together, it is often difficult to accurately compare policies.
- The actual return on the cash value build-up can be low; it is difficult to accurately estimate future cash values; other than a low guaranteed minimum (normally based on a 3.5 percent or 4 percent rate of return) there are no assurances of any dollar amount available in the future. Computer projections may or may not be realistic.
- Initial expenses generally mean there is little or no cash buildup in the early years of the policy. Some surrender charges are in effect for the first 10 to 20 years.

Trainer's note: Additional information is provided below for questions that may arise during the discussion of life insurance.

1. ***Features to consider:***
   When shopping for new insurance, or when considering replacing an existing policy, you must compare the features and costs involved to determine which policy best meets your needs at the cost you can afford.

- *The first feature to consider is face amount — the amount of coverage you need. If, for example, your needs are for $250,000 of coverage, you cannot compromise on that amount. To do so would be to put your family's financial future at risk. Once you have determined the face amount, you can then determine which policy is the best value, both now and in the future.*
- *Any insurance policy worthy of consideration must have a guarantee of renewability through the entire period when the protection will be needed. If, for example, you reasonably foresee a need for insurance until you are 65 years old, you should consider only those policies that guarantee protection through that age.*
- *As an active-duty military member, you should ensure that any policy you purchase contains no war clause (an exclusion of coverage due to combat or any combat-related activity). Many companies have suspended or eliminated war clauses. Ask for a specimen policy to review. Do not go based solely on someone's word.*
- *Check for other possible limitations on coverage that may apply to you. Check the financial strength of the company. Past failures of some large insurers make it essential to check the financial stability of the company from which you plan to purchase a policy. Rating agencies such as A.M. Best, Standard and Poor's, Moody's, and Weiss rate insurance company strength. A++, AAA and Aaa are the highest ratings for safety. While these ratings vary and are somewhat complicated, a good general guideline might be to use extreme caution when dealing with a company that has a letter less than "A" in its ratings.*
- *Finally: cost. Cost comparisons between cash value policies are often difficult. If you are considering a cash value policy, use caution when you analyze illustrations. Be sure to compare the return on the policy with a similar investment type you could purchase outside of the policy. The projected rate of return should be reasonable considering current market conditions. Check carefully both guaranteed and projected dollar figures on any illustration. The predicted cash value build-up within an insurance policy may not be based on any historical or factual data. In addition, commissions take a larger bite out of the cash value in the early years (as much as 100 percent of premiums in Year 1), thus reducing the amount of money working for you.*
- *An excellent way to compare policies and research costs, particularly for term insurance, is to use the Internet price comparison resources. Double-check your findings. Consumer or financial publications can often provide valuable insurance information. Consumer Reports magazine, for example, periodically publishes an extensive series of articles dealing with life insurance. This includes comparative ratings for sample policies from many companies. Several quote services are available that provide low cost insurance, particularly term insurance. The Internet offers numerous opportunities for comparing life insurance quotes. Active-duty service members also should check with Navy Mutual Aid Association for an additional comparison. (The association is nonprofit and has no sales agents.)*

2. ***Should You Replace Your Old Policy?***
   WARNING!! Emphasize that participants should not cancel an existing policy until they have done a thorough needs assessment and spoken with a qualified life insurance or financial planning professional. Put any new policy in place before canceling an old one. In general, you may consider replacing an old policy if:

- *You are healthy (insurable).*
- *You can significantly lower your cost per $1,000 of coverage.*
- *You currently hold several policies. (Each policy typically has an annual administrative fee of $25 to $50. For someone with five different policies, that could be as much as $250 a year that could better be applied toward the premiums of just one policy.)*
- *Your current policies are based on old mortality tables. Life expectancy is increasing; therefore, the cost per $1,000 of insurance protection for any age group is going down. Depending on how old your policies are, the difference between the older rates and the current rates can be significant.*

Do not replace an existing policy if:

- *Your health has declined to the point where it would adversely affect the cost of the premiums.*
- *Your costs per $1,000 of coverage will not decrease.*
- *You do not plan to save the difference between the old and new premiums.*
- *You do not think you can handle the pressure that your old agent might put on you to keep the existing policy. (Since most insurance commissions are paid in the first year, there will seldom be pressure not to replace a policy over one year old. Even if there is, that should not influence your decision.)*
- *Also remember that canceling any existing cash-value policy in the early years will usually result in the loss of the cash value. Even an attractive cash-value policy must generally be held 20 years or more to receive a good rate of return.*

3. ***Factors Affecting Life Insurance Costs:***

- *Age: The possibility of death increases each year as you grow older; therefore the "risk" being assumed by the insurance company is greater. The cost of the "insurance" portion of any policy will increase with age.*
- *Gender: For any age, women have a longer life expectancy than men; therefore, women's insurance costs are less.*
- *Occupation: The cost of life insurance can increase dramatically for those in high-risk jobs such as demolition specialists, race drivers or scuba divers. People with dangerous hobbies can also be affected the same way.*
- *Health: Your state of health determines not only your costs but in some instances will determine if you are even insurable! Those with chronic health problems will face higher insurance premiums.*
- *Lifestyle: Certain lifestyle choices can affect insurance premiums. For example, smokers will pay almost twice as much for life insurance as a non-smoker of the same age. Most insurance companies consider you to be a smoker if you have used tobacco in any form at any time in the previous 12 months. Once a smoker quits, the rate for insurance will normally be reduced to the non-smoker rates after 12 or more months.*

4. ***Selecting an agent.***

   Interview a number of agents that specialize in the type of insurance you need. The person that handles your auto and homeowner's insurance may not be the best person for life or disability insurance advice. Make sure they are operating with your best interests in mind. Credentials such as CFP® (Certified Financial Planner®), CLU (Chartered Life Underwriter) or ChFC (Chartered Financial Consultant) are designations to look for as all call for considerable study and continuing education requirements. All persons using these designations sign an ethical agreement.

Common Mistakes When Purchasing Life Insurance

- Using term insurance for long-term needs.
- Using permanent insurance for short-term needs.
- Not understanding the true purpose of insurance. Buy life insurance to protect your loved ones from a catastrophic loss of income.
- Using life insurance purely as a savings vehicle. These policies offer protection with cash value, which adds to the cost and reduces returns. An IRA, TSP and/or 401(k) are excellent options for savings.
- Not understanding what you are buying.
- Putting too much trust in an agent. Do your homework and do not rely on your agent exclusively to tell you what is best. Remember, they usually work on commission, and their advice may be slanted. Let the life-cycle event determine the need, not the salesperson.
- Holding onto a policy forever. Your needs change when your life changes. Stay up to date and change your insurance, too.
- Buying unnecessary insurance.
- Feeling rushed. Take your time; give yourself at least a 24 hour cooling-off period just as you should before making any other big-dollar purchase decision. Be aware that you have at least 10 days after delivery to return a life insurance policy for a full refund if you change your mind.

Annuities as Investments

An annuity is an insurance product that provides a payment or payments while you live, versus after you die, like standard insurance products. Purchase dollars are usually put in a mutual fund to grow until payments to the beneficiary start. Although there is some guarantee of payments, these products usually carry high fees and expenses including fees for cashing them in before age 59 1/2. Taxes also tend to be high on annuities. They are sometimes sold in misleading ways, promising high returns that rarely become a reality.

Annuity products pay high commissions to the brokers who sell them. This often provides the motivation to "push" these products and solicit individuals with little knowledge of financial products. Young service members, especially those in the early stages of their careers, may be targeted by these brokers and in fact are the least likely to need this type of product. In 2008, SECNAV Instruction 1740.2E was issued to prevent insurance salespersons from soliciting service members on base, in their barracks or at meeting or functions that service members are required to attend. As a general rule, do not buy an annuity product that is being touted as a great investment without checking with your Command Financial Specialist, Fleet and Family Support Center financial educator or other trusted, neutral professional who can help you unravel the sales hype and the details of the product and help you figure out if it is a good fit with your insurance needs.

SLIDE 24

ORGANIZING YOUR RECORDS

The *Your Insurance Needs: Organizing Your Records* handout provides important suggestions for keeping all of your life insurance policies in order. Ensure that your beneficiaries will be able to locate and submit a claim on your life insurance quickly and efficiently by having copies of your life insurance records in at least two places. This will make it less likely that you will lose them and more likely that, after your death, your beneficiaries will find them.

SLIDE 25

SUMMARY AND CONCLUSION

Learner Activity: Volunteer a Question

Purpose: Learners ask and answer questions to review program content.

Time: 10 minutes

Materials and Preparation: Index cards, pens and pencils.

Procedure: Give each learner an index card and ask them to write a question about something that was learned in class. It could be a question they want answered, or they can just make up a question based on the class content.

Collect the cards. Shuffle them and ask for several volunteers. Ask each volunteer to choose a question card. Read the card and have the volunteer answer the question. If the volunteer cannot answer the question, ask the class for help, and fill in information when necessary. Go through as many cards as time allows.

Conclusion

If other people are dependent on you for their financial well-being, then no insurance plan, or being underinsured, can be a costly mistake.

Be sure to:

- Determine your needs according to life-cycle events.
- With every event, review all insurance.
- Shop around for the best deal.
- Buy insurance; do not let it be "sold" to you.
- Use the VA's Life Insurance Needs calculator.
- Organize your insurance records.

By using the basic information, handouts and calculator information in this program, not only will you be sure to purchase the best insurance for your needs, you will also have purchased tremendous peace of mind.