CLEARVIEW WEALTH MANAGEMENT

Investing with Clarity and Vision

Clarion Newsletter

March 2014

Personal Finance

Will You Outlive Your Money in Retirement?

If the retirement plan you believe in your head to be true turned out not to be true, when would you want to know? Yesterday, today or after you run out of money? The answer is obvious.

A recent study and nationwide survey by the Allianz Life Insurance Company[1] revealed several key findings including the following:

- Americans believe there is a retirement crises pending and they are unprepared
- 61% of Americans surveyed fear outliving their money more than they fear death
- The Great Recession was a big "wake up call". 61% of those surveyed aged 50 to 54 agree that "recent market events created major questions around when and whether I can retire"
- 56% of survey participants fear they will not be able to cover their basic living expenses in retirement

When asked to choose between high returns or guarantees, 69% of respondents said they would prefer an investment that was "guaranteed not to lose value" while only 31% chose an investment whose goal was "providing a high rate of return"

An overwhelming 80% preferred a 4% return and a guarantee against losing value over an investment with an 8% return with vulnerability to market downturns

The study also found that the following five factors were the most important to baby boomers when designing the ideal investment

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Upcoming Seminars

Wednesday, April 16
Tuesday, May 13
Wednesday, June 18

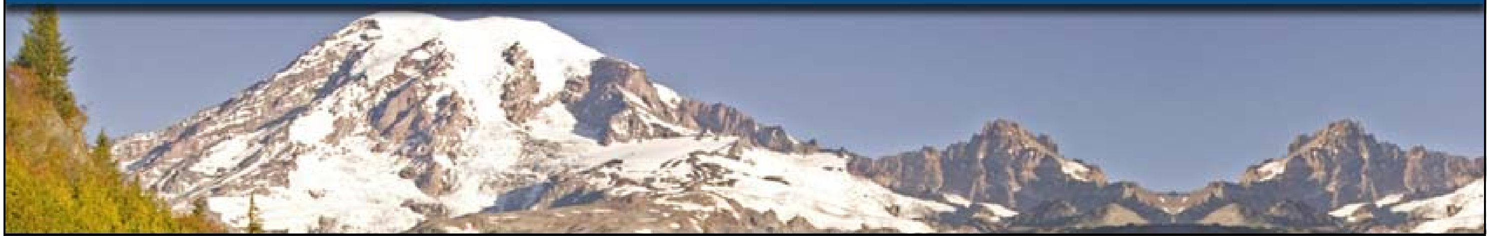
Portfolio Review

Call us today to make an in-person or phone appointment to review your portfolio.

Contact Us
866-557-1031

371 NE Gilman Blvd Suite 310, Issaquah, WA 98027

www.cvwm.com



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product for retirement:

1. Stable, predictable retirement standard of living
2. Guaranteed income stream for life
3. Guaranteed not to lose value
4. Protect against market downside
5. Don't have to worry about it

Retirement planning has changed dramatically in recent decades. In 1960 the average American male retired at 65 and died at 68. Today, a healthy, non-smoking 62-year-old married couple can expect one of them to live another 31 years! How many of us saw that coming? Social security is uncertain at best for tail-end Baby Boomers and the "Generation Y" who follow. Social Security is now projecting a 70% payout for workers currently in their 40's. And Americans continue to sink further into debt while living beyond their means.

No wonder so many Americans are fearful they will outlive their money in retirement.

If your answer to the question opening this article is "right now!", we strongly encourage you to call us for an appointment to complete our ClearView Retirement Planner to find out if the retirement plan you have in your head you believe to be true will fully fund the great life in retirement you expect and deserve. If the answer turns out to be no, don't you want to know right now? See you soon.

[1] https://www.allianzlife.com/retirement/retirement_insights/reclaiming_the_future/white_paper_findings.aspx

Do You Own a Universal Life Insurance Policy Issued Between 1980 and 2005?

If you do, your policy may well expire before you do

Many people buy life insurance and never think too much about it except when they pay the annual premium. Life insurance after all is most valuable after you have passed away, so it really is not something many of us spend too much time thinking about. Do I have enough coverage, did I pay the premium, and will the insurance company pay the death benefit are about the extent of our questions about our life insurance policy. But how about this one – will the policy and its death benefit outlive me? If you own a non-term life insurance policy issued in the years between 1980 and 2005, this is THE question you should be asking.

Most people are not aware their policies are in danger of lapsing worthless, and frankly, neither are many insurance agents. This is a new phenomenon just now gaining public attention as some of these policies have begun to fail or require dramatically higher premium payments to save the policy.

Underwriting life insurance is a very complex process that has evolved over the last several hundred years into today's mix of various forms of life insurance designed to provide a wide variety of benefits to insured's and their beneficiaries. Laws, rules, regulations, claims experience, increasing life spans, new diseases, advances in medicine, recessions and best practices have all combined to cause life insurance policies to be designed and redesigned over and over again. Term insurance, written for a limited and specific period of time, has been the most common form of life insurance for many decades. Whole Life insurance, written to insure one for the remainder of their lifetime, became popular and was widely used up until 1980. Then new designs and structures for policies began to appear changing the entire basis of how policies were underwritten and sold. Whole Life policies were pretty straightforward. The client paid the insurer a fixed and level annual premium (often paid monthly or quarterly) for the company's guarantee they would pay the death benefit when the insured dies. In these policies the insurance companies take full responsibility for interest rate risk, as well the expense and mortality risks.

This all changed with the introduction of Universal Life insurance by many carriers in the late 1970s. The very nature of the design of these policies transfers the interest rate, expense and mortality risks to the policyholder. In the universal life product the insurers eliminated policy guarantees in exchange for lower and flexible premiums vs. the higher and level premiums common to whole life policies. When designed and presented to the owner, these policies made assumptions about policy expenses and mortality costs, and made projections based upon current or recent interest rates of the time, often 10-12%, projecting them for the life of the policy, often

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30-40 years. Since issuance, it is the actual interest rate earned in the investment accounts and the real expenses incurred for the cost of insurance that determine the net performance in the policy's investment accounts. When these interest rate and growth assumptions and projections are inaccurate, when they don't include a deep and long-term recession in their forecasting, and when they inaccurately project the future cost of insurance; these factors can destroy the financial viability of a life insurance policy.
Unless action is taken right away by policyholders, some insurance professionals estimate that as many as 70% of all universal-based life insurance policies written between 1980 and 2005 will lapse worthless; this after years and years of faithfully making premium payments. The problem is 34 years of declining interest rates and increasing policy expenses. Remember when interest rates were at 15% in the early 1980s? What are they today, 1% or less? As a result, the interest earned in the investment accounts of universal policies has been significantly less than projected when the policy was issued. These policies allow insurers to increase the policies' assumed annual expenses up to a guaranteed maximum, causing the actual expenses for many to have been far greater over the years than anticipated. Annual premium contributions have not been enough to overcome declining interest rates and increasing policy expenses handed on by the insurance companies. As a result, tens of thousands of these polices have not built reserves adequate to prevent them from expiring.

There are solutions, but no panacea is available. Each policy has to be evaluated individually and every person's situation must be considered separately. There are solutions including making a onetime cash contribution, reducing the death benefit, increasing the premium, a little of all three and/or exchanging the universal policy for one with guarantees and a new pricing structure that meets your current needs.

Is your universal life insurance policy in danger of expiring before you do? The best way to find out is to bring your policy(s) into our office for a free review and assessment and obtain our recommended potential solutions if your policies are at risk or could be improved upon. If you own a variable universal life (VUL), second to die, survivorship, universal life (UL) or any other form of universal-based life insurance policy, call us today for an appointment and a free policy review. Don't wait, or it could be too late. See you soon.

Thought for the Day

"More people should learn to tell their dollars where to go instead of asking them where they went"

- Roger Babson -