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PRIZM PERSPECTIVE

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The 10 Biggest Insurance Mistakes

Few people enjoy thinking about their insurance needs, shopping for coverage, or reading through a policy's fine print. Once they do buy a policy, many people rarely think about it again, other than when they pay the premiums. But the tendency to avoid thinking about insurance can lead to insurance mistakes that can put a person's assets at risk. Below are some of the most common insurance mistakes:

❍ **Expecting the best —** Remember the saying, "Expect the best, plan for the worst?" Insurance helps you do exactly that. Some people may think they can skip various types of essential insurance (like car or health insurance), because it won't happen to them. Or they may buy a bare-bones policy thinking they won't ever need to make a claim. But the reality is that accidents and injuries can happen to anyone. A comprehensive insurance plan protects you when they do.

❍ **Not shopping around —** If you're in the market for a new policy, shop around and compare prices to get the best deal. But make sure you're comparing equivalent policies and coverage.

❍ **Buying too much insurance —** While insurance is a valuable part of your overall financial plan, there is such a thing as being over-insured. If you're paying high premiums for insurance coverage you don't really need, you're wasting money.

❍ **Not negotiating on insurance rates —** Here's a little-known tip: The premium price you're quoted isn't set in stone. Depending on the type of coverage you need, you may be able to get discounts

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Staggered Retirements

Often, spouses don't retire at the same time. Frequently, one spouse may retire first due to health problems or a layoff, not necessarily because the spouse chooses to retire early. No matter what the reason, keep these points in mind if you are in that situation:

❍ **Try to minimize withdrawals from retirement accounts.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working.

❍ **Utilize all available benefits from the working spouse's employer.** One of the most significant retirement expenses, especially if you don't qualify for Medicare, is health insurance. So, before one spouse retires, find out if that spouse is eligible for health insurance through the working spouse's employer.

❍ **Delay Social Security benefits.** It typically makes financial sense to delay Social Security benefits. For a significant number of married couples, the man is older, has higher earnings, and will not live as long as the woman. Because a surviving spouse can elect to receive 100% of the deceased spouse's benefit, it typically makes sense for the man to wait until age 70 to claim Social Security benefits to provide his wife with the highest possible benefit after his death.

❍ **Consider all defined-benefit plan payment options.** If you are lucky enough to be covered by a traditional pension plan at work, make sure to consider all the payment options carefully before selecting one. Typically, your choice will be irrevocable. ❍❍❍

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Insurance Mistakes

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based on your profession, the age of your car, installing an alarm system in your home, choosing a higher deductible, and more. Bundling — buying several policies through the same carrier — can also lead to premium price breaks.

❍ **Forgetting to pay the premium** — It's a simple but potentially devastating mistake. Missing premium payments could cause your policy to lapse, leaving you without coverage. Reduce the risk of this happening by automating your payments.

❍ **Dropping coverage to save money** — When your budget is tight, dropping insurance coverage may seem like a good way to save cash. But while you may save money in the short term, you could end up worse off in the long term if you need to make a claim. If premium payments are straining your budget, consider raising your deductible or asking your insurer if you're eligible for any discounts.

❍ **Forgetting to update life insurance beneficiaries** — As your life changes, so should the people named as beneficiaries on your life insurance policy. Divorce, remarriage, the death of a spouse, or the birth or death of a child are all times when you should update these designations. If you fail to take this simple step, your life insurance may not do its job when you need it most. After all, do you want your insurance benefits to go to your ex-spouse or have one child receive a generous insurance payment while the other receives nothing? Keeping your beneficiary designations up-to-date can help you avoid those outcomes.

❍ **Having coverage gaps** — Everyone faces different risks and, thus, has different insurance needs. Sometimes it's easy to overlook a risk until it's too late. For example, if you live in an earthquake-prone area, you likely need separate earthquake insurance. If you serve on a nonprofit board of directors, you may need personal liability coverage. If you own ATVs, snowmobiles, or other vehicles, you may need special policies to protect yourself in case of damage to the vehicle or a lawsuit. The list of possible risks goes on and on.

❍ **Not researching an insurance company before you buy** — Not every insurance company is created equal, and what looks like a great deal today may be less appealing tomorrow when you are struggling to get a claim processed quickly. Before you buy, get multiple quotes, read the policy's fine print, review the insurer's complaint record with the state department of insurance, and check the company's ratings with agencies like Fitch, Moody's, and A.M. Best.

❍ **Not thinking about insurance as part of your overall financial plan** — Insurance isn't something you should think about in isolation. In fact, it's an essential part of your overall financial plan. A solid risk management strategy protects your hard-earned wealth and your family's future. Please call if you'd like to discuss insur-

Bond Investing Tips

Consider the following tips if bonds are part of your investment portfolio:

❍ **Determine your objectives before investing.** Decide how much of your portfolio you want invested in bonds.

❍ **Diversify your bond holdings among different bond types.** Consider government, corporate, and municipal bonds, as well as different industries, credit ratings, and maturities.

❍ **Understand the risks that affect bonds.** The most significant risk is interest rate risk. When interest rates rise, bond values fall, while values rise when interest rates decline. Other risks include default risk, or the possibility the issuer will redeem the bond before maturity; and inflation risk, or the possibility that inflation will outpace the bond's return.

❍ **Choose bond maturity dates carefully.** When you'll need your principal is a major factor, but the current interest rate environment may also affect your decision. Rather than investing in one maturity, you may want to stagger or ladder the maturity dates in your portfolio.

❍ **Follow interest rate trends.** At a minimum, follow the prime rate, Treasury bill rates, and Treasury bond rates. Understand the significance of the yield curve and track its pattern over time.

❍ **Research a bond before purchase.** Review the credit quality, coupon rate, call provisions, and other significant factors. Determine whether the bond is appropriate for you.

❍ **Consider the tax aspects.** By comparing the after-tax rate of return for various types of bonds, you may be able to increase your return.

❍ **Review your bond holdings periodically.** Evaluate the credit ratings of all your bonds at least annually to ensure the quality hasn't deteriorated. Also, ensure your holdings are still consistent with your overall investment objectives and asset allocation plan.

❍ **Call for assistance with your bond holdings.** You should use carefully designed strategies to make bond decisions. Please call if you need help. ❍❍❍

Easing into Retirement

For most of your working life, you've looked forward to the day when you can quit your job and start enjoying retirement. But in recent years, talk of longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings have made retiring at a relatively young age seem difficult. More and more people are coming to the conclusion that either retiring later or continuing to work during retirement is necessary.

Working doesn't necessarily mean that you have to stay with your current employer. Rather, many individuals are taking on totally different jobs that can allow them to try something new, provide more free time by working less, or ensure less stress. Besides the nonfinancial reasons for working, there are several financial reasons that make this an important retirement strategy:

❍ **You have more time to save.** Each additional year you work is an additional year you can continue to save for retirement.

❍ **You shorten your retirement period.** The longer you work, the less time you'll spend in retirement, which means you'll need less money to fund that retirement.

❍ **You can delay Social Security benefits.** Each additional year you wait to take Social Security benefits, up to age 70, will permanently increase your monthly benefit.

❍ **You keep health insurance benefits.** One of the most significant costs in retirement is health care, and you can delay that cost by working at a job that provides this benefit.

Some companies are helping employees with retirement issues by allowing phased retirement, in which hours are gradually reduced until full retirement. If your employer offers a phased retirement program, find out these details:

❍ **How will phased retirement affect your benefits?** Many pension benefits are calculated based on your earnings in the last few years of your working career. If you don't want to take pension benefits yet, make sure your pension will be calculated using earnings while you worked full-time.

❍ **What will happen to your salary with reduced hours?** Will you receive a pro-rata share of your pay or will a different pay scale be used? Will you be entitled to pay increases in the future? Make sure you agree on how you will be paid before moving to part-time status.

❍ **Will you be eligible for health insurance benefits?** Find out the company's policy regarding health insurance benefits for part-time workers. This will be especially important if you move to part-time status before age 65, since you won't be eligible for Medicare.

❍ **What other details should you investigate?** Make sure there is a mutual understanding about your hours. Can you take time off to travel? Is this a permanent or short-term arrangement? If you don't like part-time work, can you go back to your full-time job?

If your employer doesn't offer a phased retirement program or you want to try something new, investigate your options. Some factors to consider include:

❍ How do you plan to spend your retirement? If you plan to travel a lot, how will work fit into that schedule? If you plan to split your time between two homes in two locations, how will you work?

❍ What interests you? Would you be happier pursuing a job that takes advantage of skills from your current job, or would you like to try something totally different? Do you need to obtain additional skills or go back to school?

❍ Do you want a job with significant responsibility, or are you trying to reduce the stress in your life?

❍ Are you passionate about an interest or hobby that you may be able to turn into a business? Do you want to start your own business?

❍ Is there a cause that is important to you? Is it time to move to the nonprofit sector?

Retirement is in the midst of being redefined once again. The last generation was able to retire to a life of total leisure due to the generosity of company pension benefits and Social Security. But longer life expectancies, less generous benefits, and declining asset values mean that it is time to redefine retirement. What many are seeking is not so much total leisure as more leisure or a more meaningful lifestyle. Many are finding that those goals can be accomplished while still working, with those additional working years providing more financial security. If you'd like to discuss this in more detail, please call. ❍❍❍

Six Signs You Need a Financial Plan

A clear financial plan helps you prepare for the future, brace yourself for the unexpected, and positions you to pursue your goals. If you currently number yourself among the nonplanners, it may be time to make a change. Below are six signs that it may be time for you to get a financial plan.

1. You're planning (or just had) a big life change. New job. New baby. New house. All of those milestones and more are signs that you should be taking a big-picture look at your finances. When your life changes in big ways, it often brings with it changes in how you approach money. Take this opportunity to put your financial house in order. Ask yourself some key questions. Is your emergency fund adequate? With a new house or baby, you may need to set aside more to feel secure. Do you have enough insurance? Can you save more for retirement now that you have a new job?

2. You're worried about your finances — and your future. If money worries keep you up at night, a financial plan can help ease your mind. Whether you have immediate worries or are just feeling uneasy about what tomorrow may hold, you can regain control over your life by having a clear direction. Your comprehensive financial plan will not only help you see where you stand today — and identify ways you could make the most of what you currently have — it will also help you plot a path to where you want to be. Often, goals that seem distant and unachievable become more realistic once you can see the intermediate steps needed to get there.

3. You're making good money, but you're not sure where it goes. If you want to turn today's income into tomorrow's wealth, you need a financial plan. That way, you'll be able to take the money you're bringing in today and use it to create a secure future for yourself and your family. Planning helps you assess what you're spending today and then shows you how you can save and invest some of what you earn to create lasting wealth.

4. You have financial goals, but you're not sure how to make them a reality. Does retirement seem like a distant dream? Do you wish you could upgrade to a bigger home, send your children to college without taking on debt, or start a business? With a financial plan, you'll know what you need to do financially to make those dreams a reality.

5. You and your spouse are fighting about money. If you and your spouse can't see eye-to-eye on money issues, a financial plan might be part of the solution. Meeting with an objective third party like a financial planner can help you both understand where you stand when it comes to your finances, and then negotiate a path forward that works for both of you. For example, if one of you always wants to spend money on nice vacations and the other thinks you should be saving as much as you can for the future, a financial plan can help you find a compromise that allows you to do both.

6. Your investments and finances are getting so complicated, it's difficult for you to keep track of everything. Many people start out managing their investments and finances on their own. That often works for a time, but as your money and life get more complex, it can be difficult to manage all the details without help. Unless you're a trained professional, there's a good chance you're missing out on opportunities or putting yourself at risk. A financial plan, developed with the assistance of your financial advisor, will help you identify the best ways to save, find ways to reduce taxes, and protect yourself against risk. With the help of your advisor, you'll be able to understand your total financial picture and take the steps necessary to achieve your goals. ❍❍❍

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