Horizons - September 2020

Planning Your Future

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HORIZONS
INSURANCE & FINANCIAL SERVICES

Dear clients and friends,

September is Life Insurance Awareness Month (LIAM)... This year the COVID-19 pandemic has raised the awareness of the fragility of life and how precarious financial stability can be. Despite the fact that people generally recognize the value of life insurance, LIMRA research shows 46% of Americans are uninsured and many more do not have enough coverage. Before the pandemic, nearly 1 in 3 families said they would face financial challenges within a month if the primary wage earner died.

Don't become part of the statistics and let us review your life insurance coverage. As insurance agents, it is our duty to protect our clients and their families and make you aware of the importance of having the right life insurance coverage.

Please do not hesitate to contact us!!

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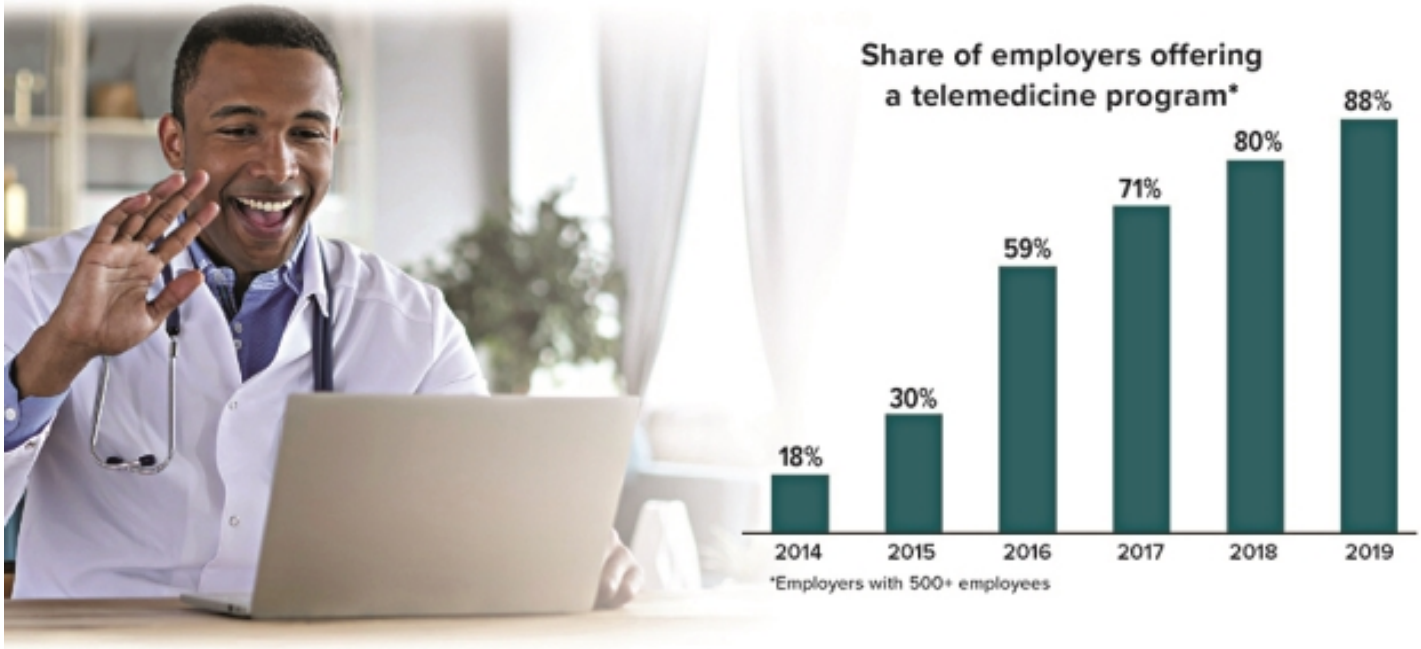
Most Large Employer Health Plans Include Telemedicine

Over the past five years, employer enthusiasm for telemedicine benefits has surged. Almost 9 out of 10 large employers now offer employees the opportunity to virtually visit their health-care providers.



Source: Mercer National Survey of Employer-Sponsored Health Plans 2019

Return of Premium Life Insurance: Protection and Cash Back

You have decided you need life insurance coverage and are considering buying a term policy. But you ask your financial professional, "Do I get any of my money back at the end of the term?" It's possible, if you consider buying a special kind of term insurance called return of premium term insurance, or ROP.

How ROP Compares to Straight Term Insurance

In general, straight term insurance provides life insurance coverage for a specific number of years, called the term. The face amount of the policy, or death benefit, is paid to your beneficiaries if you die during the term. If you live longer than the term, or you cancel your policy during the term, nothing is paid. By contrast, an ROP term life insurance policy returns some or all of the premiums you paid if you live past the term of your policy and haven't cancelled coverage. Some issuers may even pay back a pro-rated portion of your premium if you cancel the ROP policy before the end of the term. Also, the premium returned generally is not considered ordinary income, so you won't have to pay income taxes on the money you receive from the insurance company. (Please consult your tax professional.)

A return of premium feature may be appealing if you want to have a return of some or all of your premium if you outlive the policy term. Yet the cost of ROP insurance can be significantly higher than straight term insurance, depending on the issuer, age of the insured, the amount of coverage (death benefit), and length of the term. But ROP almost always costs less than permanent life insurance with the same death benefit. While straight term insurance can be purchased for terms as short as one year, most ROP insurance is sold for terms of 10 years or longer.

ROP Considerations

It's great to know you can get your money back if you outlive the term of your life insurance coverage, but there is a cost for that benefit. Also, if you die during the term of insurance coverage, your beneficiaries will receive the same death benefit from the ROP policy as they would from the less-expensive straight term policy.

Advantages and Disadvantages of ROP Term Insurance

Pros

- If you outlive the policy term, you get your money back, unlike straight term life insurance
- Premiums are generally returned free of income tax

Cons

- It's typically more expensive than straight term life insurance
- You generally don't earn interest on your money
- If you cancel the policy or let it lapse before the end of the term, you may not get your money back
- There may be a minimum amount of coverage you must buy, such as $100,000

When choosing between straight term and ROP term, you might think about the amount of coverage you need, the amount of money you can afford to spend, and the length of time you need the coverage to continue. Your insurance professional can help you by providing information on straight term and ROP term life insurance, including their respective premium costs.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. Optional riders are available for an additional fee and are subject to contractual terms, conditions and limitations as outlined in the prospectus and may not benefit all investors. Any guarantees associated with payment of death benefits, income options, or rates of return are based on the claims paying ability and financial strength of the insurer.

Printing Money: The Fed's Bond-Buying Program

The Federal Reserve's unprecedented efforts to support the U.S economy during the COVID-19 pandemic include a commitment by the Federal Open Market Committee (FOMC) to purchase Treasury securities and agency mortgage-backed securities "in the amounts needed to support smooth market functioning and effective transmission of monetary policy."[1]

The Fed buys and sells Treasury securities as part of its regular operations and added mortgage-backed securities to its portfolio during the Great Recession, but the essentially unlimited commitment underscores the severity of the crisis. The Fed is also entering uncharted territory by purchasing corporate, state, and local government bonds and extending other loans to the private sector.

Increasing Liquidity

The Federal Open Market Committee sets interest rates and controls the money supply to support the Fed's dual mandate to promote maximum employment and stable prices, along with its underlying responsibility to promote the stability of the U.S. financial system. By purchasing Treasury securities, the FOMC increases the supply of money in the broader economy, while its purchases of mortgage-backed securities increase supply in the mortgage market. The key to increasing liquidity — called quantitative easing — is that the Fed can make these purchases with funds it creates out of air.

The FOMC purchases the securities through banks within the Federal Reserve System. Rather than using money it already holds on deposit, the Fed adds the appropriate amount to the bank's balance. This provides the bank with more money to lend to consumers, businesses, or the government (through purchasing more government securities). It also empowers the Treasury or mortgage agency to issue additional bonds knowing that the Fed is ready to buy them. The surge of bond buying by the Fed that began in March helped the Treasury to finance its massive stimulus program in response to the coronavirus.

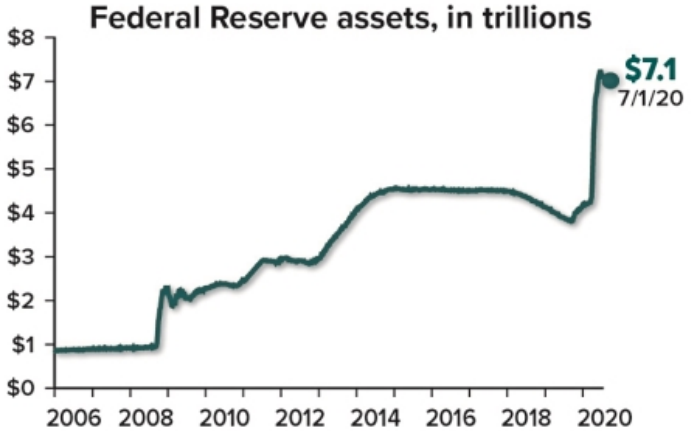
By law, the Fed returns its net interest income to the Treasury, so the Treasury securities are essentially interest-free loans. The principal must be paid when the bond matures, and the bonds add to the national debt. But the Treasury issues new bonds as it pays off the old ones, thus shifting the ever-growing debt forward.

Protecting Against Inflation

Considering the seemingly endless need for government spending and private lending, you may wonder why the Fed doesn't just create an endless supply of money. The controlling factor is the potential for inflation if there is too much money in the economy.

Big Balance Sheet

The Federal Reserve's assets grew with quantitative easing during and after the Great Recession. In late 2018, the Fed began to reverse the process by allowing bonds to mature without replacing them, only to back off when markets reacted negatively to the move. The 2020 emergency measures quickly pushed the balance sheet over $7 trillion.



Source: Federal Reserve, 2020

Low interest rates and "money printing" led to high inflation after World War II and during the 1970s, but the current situation is different.[2] Inflation has been low for more than a decade, and the economic crisis has severely curtailed consumer spending, making inflation unlikely in the near term.

The longer-term potential for inflation remains, however, and the Fed does not want to increase the money supply more than necessary to meet the crisis. From a peak of $75 billion in daily Treasury purchases during the second half of March, the FOMC began to gradually reduce the purchase pace in early April. By mid-June, it was down to an average of $4 billion per day and scheduled to continue at that pace through mid-August, with further adjustments as necessary in response to economic conditions.[3]

U.S. Treasury securities are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.

1) Federal Reserve, March 23, 2020

2) *The Wall Street Journal,* April 27, 2020

3) Federal Reserve Bank of New York, 2020

Back-to-College Insurance Needs

The COVID-19 crisis has created uncertainty about the college experience this fall, and insurance might not be at the top of your to-do list. But if you have a college student returning to campus, it's important to consider these three types of coverage.

Health Insurance

Health-care policies vary among schools, so be sure you understand the specific requirements and available options. Most schools offer a group health insurance plan, and some require coverage as a condition of attendance.

The most cost-effective solution may be to keep your student on your family policy. (Young adults can typically stay on their parents' health insurance policies up to age 26.) Medical care at campus facilities is often provided at relatively low cost to students, but you may want to check whether campus facilities and doctors are participating providers in your network.

Auto Insurance

If your student takes a car to school, it is typically less expensive to include the vehicle on your own policy than to purchase separate coverage. However, you should report the new location to your insurance company; your premium may go up or down depending on the location.

If your student will not take a car to school and the campus is more than 100 miles from home, he or she may qualify for a resident student discount on your policy. This would allow the student to drive your family vehicles when visiting home on vacations or weekends and may extend through the summer. Keeping those grades up can help, too — good student discounts don't end with high school!

Personal Property Insurance

If your undergraduate lives in a dorm, your homeowners insurance may cover personal property, up to a stated percentage of your total coverage (typically 10%). Check your policy and compare any coverage limits on dorm-room protection with the total value of the items your student intends to take. You might consider purchasing a separate student policy that offers more specific coverage in dorms and on campus, often with low deductibles.

If your student lives in an off-campus apartment, your homeowners policy will generally not provide coverage, so it would be wise to consider renters insurance. Be sure to ask your insurance agent about the specific coverage in your policy as it applies to your student's living situation.

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