



On Course

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Welcome. Annuities and life insurance products abound. Whether you already have them or are thinking of adding them to your investments, take the time to understand how they might fit into your financial plan. This month we're talking about what they are, how they work, and what to do if you own them but they may not be the best choice for your portfolio.

You may have missed our recent series on retirement. For Retirement, Part 1 - Retirement Savings, click [here](#). For Retirement, Part 2 - Social Security, click [here](#). For Retirement, Part 3 - The Retirement Paycheck, click [here](#).

Annuities and life insurance may or may not be right for you. If you need assistance, we are here to help you stay *On Course!*

Jennifer Lane, CFP

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Governments and private entities use annuities to provide pensions. There are a few, very low-fee annuities like those provided by Fidelity, Vanguard, or TIAA that have successfully accomplished what they have promised. Unfortunately, too many annuities are purchased by people who don't fully understand how complex and expensive they can be.

Get more tips in Jennifer's book

Annuities and Life Insurance

A primer on these products

- Companies market annuities and life insurance as investment alternatives to stocks and bonds.
- Both annuities and life insurance are insurance products that enable you to invest on a tax-deferred basis. You will not have to pay taxes until you make withdrawals beyond the money you put into to them.
- Fees can be quite high.
 - A surrender fee is a percentage of the total amount you need to pay if you withdraw your funds. The company sets the

percentage for withdrawal for the first year, which then generally drops by one percent each year thereafter.

- You may have to pay a commission fee when you first purchase the policy.
- You may have to pay yearly administrative and management fees.

Annuities

- An annuity is a contract between you and the insurance company. You pay the company a lump sum or series of payments in order to have regular payout disbursements in the future.
- One of the objectives of an annuity is to mitigate the risk that you might outlive your money. The annuity will pay out its set amount until your death.

Life insurance

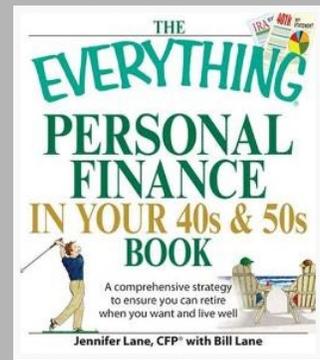
- Term life insurance pays out only if death occurs during the term of the policy.
- Whole life insurance pays a death benefit whenever death occurs.
- Life insurance products may create a safeguard for your dependents if you die unexpectedly or prematurely.

Annuities and life insurance as part of your financial plan

- Before purchasing either product, understand how it would fit into your current financial plan. Compare all the investment alternatives to choose those that will work best within your plan.
- If you need help, look for a fee-only financial planner who will act in your best interests and will help you determine whether to purchase one of these products. These advisors do not sell products and can, therefore, be more objective.
- If you already own an annuity or life insurance policy and you decide the product is not the right fit, you may be able to complete a [Section 1035 Exchange](#). This allows you to trade your product for another, newer product without any current tax consequences.

Bottom line

Just because you have an annuity or life insurance product currently, does not mean it always makes sense to keep it. Annuities and life insurance products are complex. Make sure you understand the implications before buying, surrendering, or cancelling a product.



([click here for link](#))

Helpful Websites

[Certified Financial Planners](#)

[NAPFA](#)

[Section 1035 Exchange](#)



Q&A

Q. My parents bought a whole life policy for me when I was young. Should I cancel the policy and just carry term insurance now?

-- Tom, Brockton

A: Tom, if the policy is old enough and written by a strongly rated company, it may be supporting itself on dividends and you may not even need to pay premiums to keep it active. Keep the policy and reduce the amount of other term policies by the amount this policy would pay.

Jennifer in the Media

Below are links to Jennifer's frequent contributions to financial planning articles.

- The ***New York Times*** featured Jennifer in an article titled, "**Balanced Funds Don't Inspire Fear or Greed. That's Why They Are So Useful.**" Click [here](#) to read the article.
- With a contrarian view, Jennifer contributed to an article, "**People are enraged by the idea that you should have twice your salary saved by the time you're 35!**" published recently by ***Business Insider***. Click [here](#) to read the article.
- Moving in together? Click [here](#) for the article from ***Business Insider***, "**Five questions you and your partner should answer before taking the biggest step in your relationship.**"
- ***Insider*** asked Jennifer to contribute to an article on old fashioned ways to manage your money, "**Six money-saving tips your grandma used that are way more effective than any budgeting app.**" Click [here](#) for the article.
- Jennifer contributed to an article on ***Business Insider***. Click [here](#) to read "**This is the best way to do your taxes online - according to experts.**"
- ***CNN Money's Money Moves*** featured Jennifer in an article on how to strike the right balance between retiring early and saving enough. Click [here](#) to read the article.
- Jennifer contributed to a ***CNN Money*** article "**When is the Right Time to See a Financial Advisor?**" Click [here](#) to read the article.
- Jennifer contributed to ***The Wall Street Journal*** article "**The Biggest Money Mistakes We Make -- Decade by Decade.**" Click [here](#) to read the article.

Compass Planning News

- Jennifer and Sarah were both named **2019 Boston Five Star Wealth Managers**.
- AdvisoryHQ named **Compass Planning** as one of the ten best Boston financial advisors.
- Jennifer recently answered NECN viewer questions about **how couples handle their money**. Click [here](#) to watch the segment on her blog.
- Jennifer appears on NECN every other Monday morning at 9:30 am in addition to her Tuesday 7:30 pm appearance.

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our **fee-only, client-centered approach** provides education and guidance for achieving financial goals and dreams.

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