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RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

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A Need For Comprehensive Planning - Part 3

A Comprehensive Plan includes a well-rounded insurance program. Insurance helps insulate you and your family against unexpected financial losses.

The first step in evaluating your overall insurance needs is to determine your risks and the financial impact of each possible loss. Then you should consider your options for compensating for each loss.

Typical losses include:

1. Damage to your home, automobile, or other personal property.
2. Liability for damage to another person's property.
3. Liability for another person's injury on your property.
4. Loss of wages or income.
5. Death of a family member.
6. Total or partial disability of the family wage earner.
7. Accident or illness in the family.
8. Long-term care expenses.

You may not be able to provide insurance coverage for all of the risks that you face. So it is important to prioritize the risks beginning with the one that would have the greatest financial impact. Then provide insurance for as many risks as you can afford.

Before you purchase an insurance plan, ask yourself these questions:

1. What potential risks do I face?
2. What is the chance of the risks occurring?
3. Would I have enough funds to cover the losses?

4. Which risks would present the greatest financial difficulty?
5. How would my lifestyle and family be affected?
6. What type and amount of insurance would sufficiently cover the losses?

When exploring insurance, give us a call. We can provide you with options and make recommendations based on your complete financial and individual circumstances.

Life Insurance

Life insurance is often the single largest asset in any person's estate. Life insurance proceeds can have many uses in estate planning. Any estate, large or small will have a need for cash to pay taxes, administration expenses, and debts of the decedent. Estate liquidity is also very important when it comes to keeping the decedent's business running and to also provide living expenses to the surviving spouse and any dependent children.

Life insurance proceeds can also be used to pay off large debts such as mortgages or cars. In this way, the surviving spouse and dependent children will be less likely to need to alter their lifestyle. Another use for life insurance is to meet lifetime objectives such as to purchase a business interest, to meet support obligations of a parent, or to even provide funds for education for minor children of the deceased. Life insurance can also provide income to replace the loss of income by the decedent. Finally, life insurance can be used as a means to accumulate wealth.

Since life insurance is the most commonly used estate liquidity source, I thought that it deserved a closer look.

In basic terms, a life insurance policy is a contract. The person who owns the contract is obviously the owner. The policy pays an amount, which is the face value, to the person who is named the beneficiary, when the insured dies.

What are the different types of life insurance? There are two basic types: *term insurance and cash value insurance*.

Term Insurance

The essence of term insurance is simple. If the insured dies during the contract period, the company is financially obligated to pay the face value of the life insurance contract. If the insured does not die, the company owes nothing and the contract is terminated. Most term insurance policies are renewable, and at the policy owner's option, the company must sell another year's life insurance coverage at the previously agreed-upon price. Most term policies are renewable until age 65 or 100. The premium, or the cost of the annually renewable term insurance policy rises each year, reflecting the continuing increase in the likelihood of the insured's death. There are some term policies that have premiums that remain constant for 5, 10, 20, or even 30 years, and then increase to a higher rate until the termination date. Then they can rise, up to a guaranteed maximum amount. Because they offer pure insurance protection, term insurance is usually the least expensive type of life insurance policy to purchase.

Cash Value Insurance

This differs from term insurance because the premiums are constant, or level. It also differs from term insurance because there is certainty. When the insurance contract ends, it is because the insured has died, or because the policy owner wishes to end the coverage. The company is obligated to pay at some point. If the insured has died, the company pays the face value, as it does in a term policy. If the owner surrenders the policy before the insured has died, the company must pay what is known as the cash surrender value. Cash value insurance is usually renewable to ages 65, 95 or 100. The premiums

typically range between 3 and 5 times the initial premium charged for an annually renewable term insurance policy. All states have what are called nonforfeiture laws, which specify how to calculate the minimum cash surrender value that the company must legally make available to the policy owner. This amount must be made available at the end of each policy year.

What Is A Whole Life Policy?

Cash value policies have maturity dates, which is the date at which the face value will be paid if the insured is still alive. A whole life cash policy has a maturity date that goes beyond the whole, or entire, life if the insured, which is usually age 95 or 100. What this means is that if a person purchases a whole life policy with a face value of \$100,000 and keeps it in force for the entire period, then the insurance company will pay that person \$100,000 if he or she is still alive at age 95 or 100.

What Is A Universal Life Policy?

This is a third type of cash value insurance policy, which offers greater flexibility and sometimes a greater investment yield. The policy owner can vary the amount of the face value and premium payments in order to meet changing financial conditions. During times of high inflation and rising interest rates, the company can earn greater income, and can pass it along to the policy owner in the form of higher cash values. Because of this, it is much more difficult to evaluate this type of life insurance policy when comparing it side-by-side with term policies and traditional cash value policies. We are here to help you make these comparisons.

Five Big Financial Mistakes

All of us want financial success for our families and for ourselves. It is easy to miscalculate on your way to your financial goals. These five big mistakes are all potentially costly and could be the difference in the success or failure in achieving these goals.

1. Failure to Plan. Almost everyone has heard the old saying, “*Most people don't plan to fail, they fail to plan.*” This is particularly true when it comes to insurance and finances. If any planning is done, it is usually on a piecemeal basis. To have a shot at accomplishing what we ultimately want, we must first set our goals, and then implement a comprehensive plan. This plan should include everything from savings and checking accounts, to longer-term vehicles such as annuities, CDs, and IRAs, and the protection provided by life, health, disability income, and long-term care insurance.

2. Insufficient Diversification. Another old adage still rings true, “*Don't put all your eggs in one basket.*” Diversification is generally considered a key to reducing risk and enhancing potential return. Some people believe that because they have CDs in three different banks they are properly diversified. True diversification cuts across financial product types, lengths of maturity, and asset categories. With a well-diversified portfolio, an investor is never too dependent on how well one financial product performs.

3. Insufficient Life Insurance. We are quick to insure our homes and cars, but too often we overlook our most important asset, *ourselves!* With mortgages, tuition, and bills to be paid, it is important to have proper coverage on all income earners. Some people may have group term life insurance through their employers, but this alone may not be sufficient. Be careful not to be overly dependent on group term insurance, because these plans can be inflexible, may not be portable should you change jobs, and may not be available when you need it most, after age 65. Consider purchasing individual coverage to suit your individual needs. How much life insurance is enough? That depends on a number of personal factors including your family income and number of dependents. I will be happy to sit down with you and review your particular needs and provide you with available options. You can also take a look at a financial calculator on the Internet that may help you calculate exactly how much life insurance you should have at: http://moneycentral.msn.com/investor/calcs/n_life/main.asp.

4. Inadequate Disability Income Insurance. Your earning power is the generator that keeps the wheels of your household running smoothly. But what if that generator breaks down? The risk of disability as well as its potential cost, is simply too great to ignore. Once again, a company-sponsored plan may be too limited for your needs. Typically, disability income insurance plans will cover 50 to 60% of your annual income for a pre-determined period of time. You should study the policy carefully in order to understand all of the provisions, including the definition of disability, the waiting period following disability before you can collect, and the length of the payment period.

5. No Estate Plan. Some people have the impression that estate planning is just for the rich. Unfortunately, that view may be costly to their heirs. Your estate includes such items as your home, cash, investments, personal property, and other assets you and your spouse may own jointly or as community property. These may add up to a lot more than you thought you were worth. You owe it to your family to have an estate plan in place. An effective will, a trust arrangement and adequate life insurance are some of the options available to make it easier for your heirs upon your demise. Consult your tax advisor, legal advisor and my office for assistance in putting together a proper estate plan.

“*To err is human*” is yet another pearl of wisdom. Sure, everyone makes mistakes, but all of the ones outlined above can be avoided. With proper insurance and a comprehensive plan, you can steer past those costly mistakes and be on the road to your long-term financial goals.

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