



THE BACK BAY ADVISOR

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What Happens If You Are Disabled?

For many people, a long-term disability would be financially devastating. Although no one likes to think about this possibility, you should consider your options now so you can obtain disability income insurance if needed.

Many individuals can find the funds, even though it might be difficult, to get through a short-term disability of six months or less. Find out what benefits you would be entitled to under sick leave policies, short-term disability policies provided by your employer, and workers' compensation. Another source of funds might be your emergency fund of three to six months of living expenses.

When considering a long-term disability, assess your income needs until age 65, when presumably retirement benefits would begin. During this analysis, consider the following items:

- **Estimate your monthly expenses following a disability.** Typically, some of your disability benefits would be free of income taxes (if you paid the premiums) and you won't incur work-related expenses. However, don't underestimate your expenses, since your medical and rehabilitation expenses might be much higher after a disability. Find out if you would continue to be covered under your employer's health insurance plan. If not, you'll need to make provisions for

that expense.

- **Review your annual Social Security statement for an estimate of disability benefits.** However, keep in mind that the eligibility requirements are quite stringent — you must be totally disabled, have little or no chance of recovery, and wait six months or longer for your first check. Even if you do qualify, benefits tend to be modest.
- **Decide what personal resources you would want to use.** You can access funds from individual retirement accounts, annuities, or 401(k) plans without penalty if you are disabled. But first consider whether you want to risk depleting your retirement fund or children's college fund due to

a long-term disability.

- **Investigate any long-term disability benefits provided by your employer.** Long-term group disability plans are less common and typically also less generous than short-term plans. The policies frequently have strict definitions of disability, pay up to 60% of your base salary (bonuses and commissions generally aren't included), pay two to five years of benefits, and don't provide cost-of-living increases. Also factor in income taxes that must be paid on any benefits your employer paid for. Check to see if your employer-sponsored retirement plan offers an option for early retirement in

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Assessing Your Life Insurance Needs

Life insurance is meant to protect your family in case you die. We all hope to live to a ripe old age, to see our grandchildren marry and have children of their own, and to share old age with our spouse. But life insurance is about preparing for the unexpected. If you have dependents who rely on your income, life insurance will probably be needed to provide for them after your death. Consider these five steps to ensure you have the right life insurance coverage:

1. **Determine how much life insurance you need.** To decide,

consider:

- What lifestyle do you want to provide for your spouse and other dependents?
- How much will that lifestyle cost?
- Are there any special circumstances you should consider, such as paying for a child's college education, paying off a mortgage, taking care of elderly parents, or providing for your spouse's retirement?
- What other sources of income are available to pay for that lifestyle?

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case of disability.

- **Consider purchasing disability income insurance to fill any gaps.** However, you might not be able to replace more than 60% to 80% of your income through insurance, since insurers want you to have an incentive to return to work. Any benefits from policies for which you paid the premiums are received income-tax free. Coordinate your employer-provided insurance and your own policy so that the maximum benefits do not exceed the amount the insurance companies will pay. Otherwise, you may pay for coverage you won't receive.

If you decide to purchase disability income insurance, make sure to consider these things:

- **Pay special attention to the definition of disability.** There are three basic types of coverage: own occupation, any occupation, and income replacement. Own occupation pays benefits when you can't work at your specific occupation. Many professionals, such as doctors and lawyers, opt for this coverage. However, due to substantial claims, this coverage is now more difficult to obtain. You may be able to find own occupation coverage for a specified period, with the policy then converting to any occupation coverage. Any occupation means you must be unable to work at any occupation that your training and education would be suited for. Income replacement policies pay the difference between what you were earning before the disability and what you are earning now. For most individuals, income replacement policies will provide the best balance between costs and benefits.
- **Opt for a long waiting period before benefits start.** This is a good way to reduce premiums, provided you have other resources to rely on for the short

Insurance Basics

It's not uncommon to purchase insurance in a haphazard manner. You are offered a policy that seems like a good one, so you purchase it and never review it again. Then you buy another policy a couple of years later. In the end, you haven't systematically evaluated your insurance needs, so you may find yourself overinsured in some areas and underinsured in others. To help prevent this from happening, consider these tips:

Review all your policies every couple of years. You want to make sure you have adequate coverage in all major areas, while also evaluating whether revisions are needed due to changes in your personal circumstances. For instance, your need for life insurance is likely to change drastically over your life, as your lifestyle and the number of people dependent on your income changes. Review your homeowners policy to make sure the policy limits are sufficient to pay for rebuilding your home. As your financial situation improves, you might need more personal liability insurance. The amount of disability income insurance you need is likely to change as your income changes.

As you get older, you should investigate long-term-care insurance.

Purchase insurance wisely.

The primary purpose of insurance is to protect you from financially devastating losses, not from every minor loss you might incur. Thus, review all the riders and options in your policies, only retaining those that are important to you. Check if you qualify for discounts offered by your insurance companies. Consider increasing your deductible periodically — this is typically a good strategy for reducing insurance premiums.

Avoid insurance you don't need. Don't purchase insurance for minor items you can easily cover yourself, such as extended warranties on small household appliances. When reviewing your policies, make sure you're not paying for duplicate coverage. For instance, you may have disability income insurance at work and through a personal policy. Review the policy limits on both to ensure you aren't paying for benefits that can't be collected because you've exceeded the policy limits.

If you'd like help evaluating your insurance needs, please call.

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term, such as sick leave, personal savings and investments, and short-term disability coverage. Waiting periods can range from one week to two years, but the most common option is a 90-day delay in benefits.

- **Consider coverage that pays benefits until age 65.** Disability insurance is designed to protect your financial situation from a serious disability, so you should obtain coverage for the long term. Policies for lifetime benefits are rare and expensive. It's probably not needed, however, since you will likely be eligible for Social Security and other retirement benefits once you turn 65.
- **Look for a policy that provides**

residual benefits. This allows you to return to work on a part-time basis and still receive partial benefits.

- **Make sure the policy is either noncancelable or guaranteed renewable.** Noncancelable means you can renew the policy every year at the same premium. Guaranteed renewable means you can renew the policy every year, but the premium can increase as long as it is not done so in a discriminatory manner. Either provision will ensure that the policy can't be canceled due to medical problems.

Please call if you'd like to discuss your need for disability income insurance in more detail. ■

Life Insurance Needs

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2. Decide what type of policy you need. Although there are a wide variety of policy types, the two broad categories are term and cash value:

- **Term insurance** — With term insurance, you purchase insurance protection only, with none of the premium set aside to build cash value. Your beneficiary receives the policy proceeds if you die during the policy's term, but you get nothing if the policy is canceled.
- **Cash-value insurance** — Cash-value insurance accumulates, from premiums paid and from investment earnings, a cash surrender value that is your property. If you surrender the policy, you receive that value. Furthermore, you can borrow against the cash value through a policy loan, but any outstanding loans are subtracted from the insurance proceeds when you die. A wide variety of cash-value insurance policies exist, with numerous riders available to meet specific needs.

3. Review insurance policies.

Since life insurance companies offer so many different options, it can be difficult to compare several different policies. Try following these steps:

- Compare only the same type of policy. For instance, don't compare a term policy to a variable-life or whole-life policy.
- Make sure the policies contain the same options and riders.
- If considering permanent insurance policies, review the assumptions used in the policy illustration, which shows the policy's projected value at some time in the future. Keep in mind that these illustrations are hypothetical and your value will depend on the policy's actual performance. Obtain illustrations

Review Your Homeowners Insurance

Often, homeowners insurance is purchased with the home and then is not thought about again until a claim is made. But since there is little you can do at that point about your coverage, take time periodically to review your policy, including these items:

- **Review the adequacy of your policy limits.** Investigate how much it would cost to replace your home and make sure your policy limit will cover that amount. Don't insure your home for its market value — it may cost more or less than that to rebuild your home. And even if your home was totally destroyed, you would still have the land. Try to obtain guaranteed replacement cost coverage, where the insurance company will rebuild your home even when the cost exceeds the policy limits. Be aware, however, that some companies no longer offer this coverage and even those that do define guaranteed replacement cost in different ways. Make sure your policy has an inflation endorsement that increases your coverage annually for increases in construction costs.
- **Obtain coverage for special risks.** Basic policies protect you from fire, smoke, windstorms, vandalism, and lightning. The

most comprehensive policies cover every peril except those specifically excluded, typically floods, earthquakes, war, and nuclear accidents. If you live near a flood plane or earthquake area, obtain specific coverage for these perils. Find out if your policy will pay to rebuild your home in accordance with local zoning laws and ordinances.

- **Understand what other items are covered by your policy.** Your homeowners policy also typically covers personal property, other structures on your property, landscaping, loss of use when your property is destroyed, and personal liability coverage. Carefully review the limits for all of these items, since you can generally add endorsements if you need additional coverage. Typical policies cover personal property for a maximum of 50% of the coverage on the home, usually paying actual cash value, which deducts depreciation from the amount paid. Try to obtain a replacement cost endorsement, which pays to replace your property and typically raises the limit to 70% of your home's coverage. Pay special attention to limits for items like jewelry, antiques, collectibles, and works of art. ■■■

based on three alternatives — the original illustration, one with an interest rate 1% lower than anticipated, and one with the minimum guaranteed rate.

4. Take the time to understand what you are purchasing. Life insurance policies are complex documents. Make sure to read the entire contract, and get answers to any of your questions. Don't sign the policy if you don't understand its terms.

5. Periodically reassess your

policies. Your life insurance needs will typically change over your lifetime. If you've become married or divorced, had a baby, or your spouse has died or become disabled, you'll likely need to change your life insurance coverage. Make time each year to reassess your current life insurance policy.

Please call if you'd like help assessing your life insurance needs. ■■■

In the News

In September, the National Association of Personal Financial Advisors (NAPFA) featured **Phil Lee** on the “Tips from the Top” section of its Web site.

The *Boston Globe* chose **Susan Brown** and **Emily O’Hara** to assist with its ongoing “Money Makeover” series. Susan and Emily created a financial plan for a woman seeking to purchase a home.

The Boston Globe

its ongoing “Money

Susan was also quoted in *Money* magazine about teaching children to use credit cards responsibly.

Money

magazine about teaching children to use credit

In the “Unwed and Planning” *Financial Planning* article, **John LeBlanc** cautioned against choosing just any lawyer when in an unmarried relationship.

John was asked to serve as a panelist for the *InvestmentNews* and Moss Adams study focusing on practice management, leadership and changes within independent financial advisory firms.

Client Services

Phil Lee authored and distributed an article on IRA Roth conversions titled “One Size Fits One.” If you are interested in receiving a copy, please contact **Rainey Lennon**.

Erik Gudim participated in conference calls with several fund managers, including Cohen & Steers, Leuthold, PIMCO and Artio. He also met with Leuthold and Dimensional Fund Advisors onsite to discuss strategies, updates and outlooks for 2010.



Erik W. Gudim, AWMA®

Erik also worked with **Bob Siefert** on portfolio design considerations and asset allocation strategies, and assisted **Jeanne Gibson Sullivan** with research for the quarterly letter. Erik and **Kevin Sweeney** conducted an annual compliance review of the firm’s operation as required by the Securities and Exchange Commission.

Technology

Clients now have the opportunity to view quarterly reports and market commentaries online through a secure page at www.backbayfinancial.com. The service also allows the exchange of confidential client information. Clients who are interested in taking advantage of this new service should contact **Becky Martz**.

All Work and No Play...

The firm was well represented at this year’s Boston Athletic Association Half Marathon — **Erik Gudim, Rainey Lennon, George Padula** and **Bob Siefert** all participated in the race.

In addition, Rainey joined a women’s soccer league. She visited Pennsylvania for a wedding, spent time in Cape Cod with friends and attended former-staffer Lindsay McDonald’s wedding.

Kevin Sweeney and his wife Deirdre traveled to Italy while George Padula enjoyed a trip to Canada. **Mandy Magee** spent time in Europe, visiting Germany, Scotland, England and Ireland.

Staying in the Northeast, **Phil Lee** vacationed in Vermont, Cape Cod and New York. In his down time, he finished painting his home. **Susan Brown** visited Connecticut and New Hampshire.

Bob Siefert spent Labor Day weekend in New York City at the U.S. Open tennis tournament. He and his wife later spent two weeks in California, visiting Sonoma, Lake Tahoe and San Francisco.

While in Arizona, **John LeBlanc** made a stop in Sedona, where he saw the red rock formations and took a famous Pink Jeep tour.

Continuing Education

With the estate tax scheduled to end in 2010, **Mary Evans** attended a “What Will 2010 Mean for Estate Planning?” Webinar. **George Padula** and **John LeBlanc** attended a Best Practices Symposium on present trends in the industry.

At the September NAPFA meeting, **Susan Brown** enjoyed a presentation on the use of immediate annuities to remove some of the market risk for retirees. Susan also attended the Financial Planning Association regional quarterly meeting and heard well-known financial planner Michael Kitces speak about converting IRAs to Roth IRAs.

Mandy Magee and **Rainey Lennon** attended a Schwab Solutions conference and participated in seminars on various topics, including new account set-up, MoneyLink and Schwab’s new Web site.

Mary and John attended a Boston Estate Planning Counsel seminar about estate planning and litigation avoidance for gay and lesbian individuals and couples. The presenters delivered their current perceptions of the status of civil unions, marriage and other considerations on a state-by-state basis.

John traveled to Arizona for a conference on advanced planning concepts, business practices and human resource utilization with other NAPFA firms.

Giving Back

The Boston Children’s Chorus recently named **Bob Siefert** to its Finance Committee. The non-profit organization uses music as a tool for social change, youth development and healing for at-risk or underserved children in Boston.

Company News

Back Bay Financial Group hosted a “Lunch and Learn” seminar in September for the Association of Small Foundations. The seminar discussed the impact of the current market environment on distribution strategies for non-profit foundations. **Kevin Sweeney** and **George Padula** prepared presentations on issues concerning sustainable

spending policies for foundations and rebalancing portfolios.

The firm also hosted a “What If... Workbook” seminar, featuring Gwen Morgan of the Lydia Group. If you are interested in purchasing a workbook, please visit www.whatifworkbook.com. The event was organized in part by **Rainey Lennon**.