Ep104: Tax Planning Strategies and Updates with John Nersesian of PIMCO

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PATTI BRENNAN: Hi everybody, welcome to "The Patti Brennan Show." Whether you have $20 or 20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives. This episode is part of the "Ask Patti Brennan" series.

Today we're going to be talking about insurance issues; things to consider whether it's health insurance, disability coverage, or life insurance. Not a great topic. Nobody really likes talking about insurance but let me frame it for you because it is an important aspect of your financial planning.

We talk a lot about portfolio management and risk management, making sure that you're not subject to lots of ups and downs - especially the downs.

Well, we could do all the greatest planning in the world, but if you got sick and needed, for example, long-term care, that could wipe away all the great work that you've done to save your money with portfolio management, etc. Think of insurance as another form of a risk management tool.

Instead of you taking on that risk personally, and when I say you, you, your assets, your spouse, your spouse's assets because it's all one big pie, right? Instead of you assuming all that risk of an event occurring, you're just going to transfer that risk to an insurance company. For that, you're going to pay them a premium, quarterly, semi-annually, or annually.

Think of homeowners insurance. We all have homeowners' insurance. We pay an annual premium. In the unlikely event that a fire rages through our homes and burns it to the ground, instead of us having to rebuild it ourselves, we're going to let the insurance company take care of it.

Let's talk about some of the more personal lines of insurance. First, starting off with medical insurance. This is an important topic because that is an exposure everyone has. We've seen it over the last couple of years with COVID. Those bills can get really high. If you have a coverage through your employer, occasionally just review it.

If you are married and your spouse has coverage, this is not something you want to fool around with. Get the highest quality coverage that you possibly can.

Review your premiums. Do you want to get a high deductible plan? That might have some tax advantages if you have the savings to be able to take care of those deductibles, those high deductibles, $8,000 to $10,000. You're on your own. You must pay that first before the insurance kicks in.

If you go with a high deductible plan, those monthly premiums are often much lower. In addition, you would be eligible to set up an HSA, which is a neat tool that has tremendous tax benefits.

The long and short with health insurance, if you are working and have employer-provided coverage, occasionally just review it, and review what else might be available. If you are not working and you happen to be on the marketplace, there are wonderful subsidies that you might qualify for.

If you have an advisor, that's an important thing for your advisor to know because whatever they're doing with your portfolio will have an impact on whether you actually get that subsidy. We have a family of four people who happen to be on the marketplace, and because of the work that we did on their portfolio, they were able to get a really big subsidy.

Now, subsidy is not something that is a tax deferral type of tool. They're saving $1,000 a month on their medical insurance because of the subsidies. That's a big deal for this family of four. If you were on the marketplace, I really think it's important for you to review the coverage from year to year because the company that you're with may change their provisions, their coverages, etc.

Even though it might automatically renew, please make sure that that's the company you want to remain with, especially if you are moving to a different state. That goes for Medicare as well and supplemental plans. If you happen to be changing your state of domicile, it's a whole new ballgame, guys.

Review your coverage with an expert who focuses on that area. This is especially important if you have drug coverage through an employer. If you are eligible for Medicare, you only have 63 days to sign up for Part D. Otherwise, if you change your mind later or if you decide that you'd like to get Part D, you're going to have a penalty on that coverage for the rest of your life.

If you have drug coverage through your employer, and it's no longer there, make sure you're signed up for Part D, ASAP. We did a whole separate podcast regarding Medicare, the supplemental plans, the Part D coverages.

If this applies to you, go back to that Medicare podcast we did earlier this year, because it was important. There are important dates, drop-dead dates and considerations when it comes to Medicare and those coverages.

As it relates to the Part D, my suggestion to you is, like any insurance, you'll want to review it, and that's especially true if the meds you take are different.

Company A might provide wonderful coverage, but then the doctor is prescribing something different, and you may not have great coverage with this company anymore, but company B will give you 100 percent.

Every once in a while, and especially at the end of each year, just review your drug coverage, make sure that this is the same company that you should remain with.

As it relates to life insurance, I don't know about you, but I don't like paying my life insurance premiums. It reminds me of something that's probably going to happen someday, but it's important.

The thing with life insurance is, as we get older, your needs do decline. Now, it doesn't always happen, sometimes they increase. If, for example, you purchase a second home and now you have another mortgage, you might want to have coverage in the event that something happens. You want to make sure that that mortgage would be covered.

Every once in a while, run the numbers to see whether or not the coverage that you have is necessary to cover the expenses that they're supposed to cover. Again, that's what life insurance is there for. It's there to create money when it is needed most. The thing that caused the problem also solved it.

A loss of an income, that's the problem. In comes the life insurance, it solves it. Someone passes away, they've got a big estate tax, you've got the life insurance to pay for it. Now, that's a simplified way of looking at life insurance especially in the estate tax area. There are a few other caveats that I would highly recommend as it relates to that area.

When you think about your disability coverage, you could have coverage through your employer. Most employers do provide coverage.

First thing to ask is, how much of your income will they cover? A lot of employers will provide up to 60 percent of your salary to a cap. What happens if you're at a higher income, and you're living on that higher income? In that case, you might want to consider getting private coverage to fill that gap.

The other thing to think about with disability insurance is as we get older, the value of the disability insurance declines. For example, most disability insurance will cover you to age

65. When you were 50 years old, that was 15 years of income that was going to be replaced. If you're 60 years old and healthy, that's five years of income that's going to be replaced.

If the premiums are significant, and if you're healthy, then you may want to consider maybe dropping or reducing the coverage. Again, if you are retired, you're not going to have the coverage. Even if you have disability insurance, they're not going to pay. So, you have to have the income. You must be working for the insurance company to actually pay the insurance benefit.

Let's go back to life insurance. If you have permanent life insurance, that's whole life, universal life, variable universal life, etc., please take the time, doesn't take much time to pick up the phone, call your insurance agent and get a re-proposal because the projections that were originally run probably are going to be different today.

If it's universal life that's interest sensitive or whole life that's based on dividends which are also interest-rate sensitive, chances are that projection's going to be very different. That's really important.

Also, if you're using your cash values to pay your premiums, you do not want that policy to lapse, because the policy isn't performing as you had hoped or as was projected 10 years ago. Call your agent, get a re-proposal and make sure that the strategy that you have for that insurance still applies.

Now let's talk about something just plain-vanilla and that's term life insurance. Most term insurance is not the annual renewable kind. It has a term. It could be 10-year term, it could be 20-year term or a 30-year term.

We met with someone recently who had significant health conditions and really needed to keep that insurance in force, but just realized that that insurance was not terminating, but his premium was going to skyrocket in three months.

When I say skyrocket, we're not talking about a double or a triple of the premium. They were looking at a premium that would have gone from reasonable, say, $700, a year, closer to $10,000 a year, because he had hit the end of that particular term.

If you have term insurance, please be aware of when that chosen term is going to end, and then do an evaluation in terms of whether you're still going to need it. If you are going to still need it, it's important to see whether you can convert it before that drop-dead date.

Many term companies, I'm going to say most, will allow you to convert it into permanent insurance at a higher premium, of course, but this way, it's permanent. As long as you pay your premium, it will never end.

In this case, with the story that I was just telling you, that person is basically uninsurable now because of a decline in health, but because of this term insurance, he got a preferred rating when it was issued 20 years ago. Guess what, he's going to get a preferred rating on a permanent policy, even though he would probably be completely declined.

Again, term insurance, know when that term ends, determine whether you still need some coverage or all of it, and then figure out the best strategy that's going to work for you and your family.

Last but not least, let's talk about long-term care insurance. Long-term care is not one of those ideal scenes for most people.

We don't want to imagine the time when we are dependent on another human being to help provide care for us, activities of daily living, whether it be eating or getting to the bathroom or what have you. If there is a need, it's really important.

If you have long-term care insurance already, from time to time, review your coverage, it's certainly increased in cost significantly, like everything else has with inflation. As more and more of us get older, I suspect that the cost of this is going to rise even faster. It's a supply and demand thing guys, the lower the supply people to provide the care the higher the price will go so.

As it relates to your long-term care insurance if you have it, review your coverage. If you have it, you probably are like most Americans and been getting these nasty-grams in the mail.

These nasty-grams are saying, "OK, your premium used to be $3,500," for example, "but the insurance commissioner has approved an increase in your principal." When I say the insurance commissioner, they can't just arbitrarily go to John Smith and say, "We're going to double your premium." An insurance company is not allowed to do that.

When there is a premium increase, it must be approved by the insurance commissioner of each state. The way that works is ABC Insurance Company says, "Hey, listen, we're in the business of providing coverage, but the claims are much higher than we originally projected, and what we estimated or guesstimated."

It's not really a guesstimate. They do calculations. "We did not anticipate these claims, and so we have to increase the pool of capital, the pool of money that's coming in every year. Otherwise, we're going to go out of business, and then nobody is going to have any insurance."

Let me tell you guys, that has happened. That is not fun, especially for people who have their insurance with these companies and were counting on it to pay for the care. We had a situation a few years back where the insurance company did go under, and my client was on claim.

She was receiving the benefits, and this company basically went into receivership. It was a very, very difficult situation. Again, with long-term care, number one, make the determination. Can you self-insure? Do you have sufficient assets to provide for the coverage to pay for it if you did need help?

Whether it be at home, assisted living, or a nursing home. If that's the case, that's great. If not, then you want to look and see what insurance coverages are out there. There's a lot of new designs of this long-term care insurance, some better than others, as with anything.

Make sure that you're working with a reputable agent who can give you different options and shop the coverage for you.

As I alluded to earlier, check on these insurance companies. There's nothing worse than paying into these coverages year after year, and the insurance company not being as prudent with the way that that money was managed and not being able to provide the coverage that you are hoping for.

Insurance, not a great topic, don't love talking about it. Most people don't like hearing about it, but it is important for your financial security. You don't want too much, right? You don't want too little. What's the right amount for you?

Thank you so much for tuning in today. I hope this was helpful. If you have any other questions, please go to our website at keyfinancialinc.com, submit your questions. We're happy to talk about anything that you're curious about, you have questions on. If you want us to have a guest on, on a related topic or something that you're thinking of, let us know.

It's been fun to do these podcasts for you. I'm so grateful to all of you for tuning in, for going to our website, and for giving us all these great ideas to talk about. Until next time, I'm Patti Brennan, Key Financial, Wealth Management with Wisdom & Care.