

summaries



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Thoughtful Wealth Planning Incorporates Insurance Reviews

As Sigma clients know, we believe that the sooner people begin planning for their future; the more likely they will be to succeed in their long term plans. To that end, as investment professionals, the focus of our work and interactions with clients is to make sure that their financial affairs are in line with their long term financial goals. While this seems simple in theory the execution is no small matter. In today's world it is almost cliché to say we take a holistic approach to our work with clients. Yet thoughtful, holistic wealth planning is the approach Sigma has always taken with clients. Anything less leaves clients vulnerable to surprises. Surprises are great for birthdays; it is not the right approach for long term planning issues.

The goal of the planning process is to create a framework that helps the client understand the trade offs and opportunity set in achieving their long term financial goals in a manner that is most optimal in providing them peace of mind. This means something different for each client. For some it means simply knowing their money will outlive them. For others it may mean how to transfer their business appropriately to the next generation, while for others it means how to best gift money to charities in a constructive manner.

Sigma is uniquely situated in the wealth planning industry. We have several distinguishing characteristics.

As a Registered Investment Advisor (RIA) regulated by the Securities and Exchange Commission (SEC) we have always been a fiduciary for the entire relationship for all clients. We are a 40+ year old firm that has always been employee owned. Our professionals are highly trained and experienced in both investments and wealth planning. One of our most distinguishing characteristics is that our managers serve in the capacity as the primary contact for client relationships and the leader of the client's wealth planning team. This means clients have direct access to the decision maker on the portfolio. And, the managers are someone who has a detailed understanding of their client's financial picture. This is important as it allows for greater continuity and coordination in the wealth planning process. At Sigma, portfolio decisions are not made in a vacuum based on the most efficient process for the firm to manage assets. Rather, portfolio decisions are made within the context of the client's unique situation. This can be particularly important with regard to taxable accounts and special situations.

Another distinguishing characteristic is Sigma's compensation arrangement with clients. We are a fee only advisor with fees based solely on assets under management. This directly aligns our interest with that of the client. We do not charge specifically for our time (and hence, have no reason to "pad" the clock), nor do we sell products or receive any type of commissions

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or referral fees for the sale of financial products such as insurance or annuities. For our clients this means we can provide independent, thoughtful perspectives and insights on both the pros and cons of various financial products.

When we begin work with a new client relationship, we take an inventory of their financial life, including a discussion of their marketable investments, any real estate or other illiquid assets they may own (art, collectables etc.), future cash streams (social security, pensions, annuities) as well as insurance policies of all sorts and any liabilities outstanding against the asset base. We discuss and review the estate planning and any tax planning that has taken place. This last piece is particularly important for business owners or other individuals that may have complicated situations. A lack of co-ordination of tax, estate and investment planning can result in the differing activities working at cross purposes. At a minimum, lack of coordination can result in sub optimal results with significant inefficiencies. At worst, there could be a significant increase in taxes and/or a situation where asset titles and beneficiary designations are done incorrectly and not aligned properly with the estate planning or tax planning that has been done. As a wealth advisor, Sigma often assumes the role of quarterback, providing ongoing co-ordination of the various pieces of the financial picture; the estate planning done with the attorney, the tax planning done with the accountant and any financial products

purchased such as insurance or annuity products with the risk professional (insurance agent).

As we begin a client relationship, we inventory the financial assets including a review of insurance policies. Discussing insurance policies are an important, but sometimes overlooked, aspect of the overall planning picture as each client's needs and objectives are different. Some of the policy review includes a discussion of property and casualty insurance. If there are client questions in this arena they are generally with regard to how much insurance makes sense, the tradeoff between deductibles and premiums as well as if an umbrella policy is appropriate. These are typically less complicated discussions. Most people understand this type of insurance and the nuances and trade offs. Typically, working with an established, knowledgeable, independent agent can yield results to clients with coverage that best meets their needs.

Given the changes that began in health care insurance in the past few years, this topic is now part of our discussion with clients. For those not yet eligible for Medicare, and not covered under an employer plan, the health care insurance policy is selected from insurance companies participating in individual states health policy exchanges. For a family plan, the cost includes the monthly premiums plus the annual deductible. In the past few years we have seen premiums cost anywhere from ~\$1,200-\$2,000 per month depending on the policy coverage and number of people on the

plan. For planning purposes, we assume the annual cost of healthcare to be approximately \$25,000 (again, for those not covered by Medicare or an employer plan).

For those approaching the age of eligibility for Medicare, much of our discussion is simply explaining the alphabet soup of coverages under Medicare. Our August 2016 Sigma Summaries provides a detailed explanation of Medicare plans. Application for Medicare coverage should be done in the three months prior to one's 65th birthday. If enrollment does not take place in the three months prior to one's birthday, the coverage start date is delayed. Those who are already receiving Social Security retirement or disability benefits are automatically enrolled and will receive evidence of coverage in the mail three months before the 65th birthday. As clients approach this birthday, Sigma's managers often remind clients to enroll.

Life and long term care insurance require a much more detailed conversation. In the case of life insurance it has often been purchased many years earlier at a different stage of life and a very different financial picture. Often, at the time of purchase, the client's asset base was much smaller and it was critical to insure certain financial obligations such as college education or maintaining a family's standard of living should a primary wage earner pass away as there was not a significant financial cushion to fall back

upon. As time passes, assets grow and the financial obligations that were being insured no longer exist - yet the insurance has been maintained without any re-evaluation of the need or cost effectiveness of the policy. Frequently we find the client is unaware of the terms of the policy they have purchased or the options they may have going forward. With life insurance policies there are usually options. This may include the ability to receive the cash value that has built up in the policy or have the premiums paid for by the cash value that has built up. As part of our planning process, we analyze life insurance policies held by clients and explain the various options and trade-offs to the client. As long as the policy remains in force it is reviewed and discussed as needed at client update meetings.

Similar to life insurance, long term care insurance requires a more detailed conversation and analysis. This is a relatively new sector of the industry and the dynamics have changed significantly over the past ten years. The rising cost of nursing care combined with the aging of our population has resulted in the benefits on newer policies being considerably less attractive than what was offered on some of the early policies. In addition there has been some upheaval in the industry as less stable insurers have begun to disappear. Clients routinely ask us if long term care insurance is appropriate for them. Some may be able to self-fund, but others may need to investigate other options. When considering long-term care insurance,

local independent personal accessible
interactive creative local independent personal
knowledgeable thoughtful ethical experienced

clients need to consider cost, choices, and timing. Our discussions focus on the trade-offs between cost and what the policy insurance actually provides as these benefits can be difficult to interpret. For those that hold policies, we review them to make sure the terms are understood and that the reasons the policy was taken out still are present.

For Sigma, thoughtful wealth planning involves the recognition that each client/family has a different process and set of outcomes that defines success. The optimal financial plan for any client is that one where a proper identification had been made of the trade-offs of various choices (when to retire, how much to spend, how much to save, etc.) and informed, well

thought out decisions are made. For Sigma, optimal does not mean that one passes away with the most amount of money that their asset base can produce. Rather, success is defined as the pieces of their plan fitting together in a manner that provides optimal chance the client's goals and objectives can be met in a manner that provides peace of mind.

As I often tell clients: The goal is not to be the richest person in the cemetery! The goal is to make sure the funds they worked so hard to amass are there, when they need them, for whatever purpose they desire.

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives

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