



1

Pillars of Financial Independence

DAV MSO 2016

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American Armed Forces Mutual Aid Association:

- Proudly serving America's Armed Forces since 1879!
- Non-profit, Member-Owned Mutual Aid Association
- Open to all branches of the U.S. Armed Forces
- Experts in Life Insurance, Financial Planning, Investment Management, Trust Services, and Mortgages
- 90,000 members



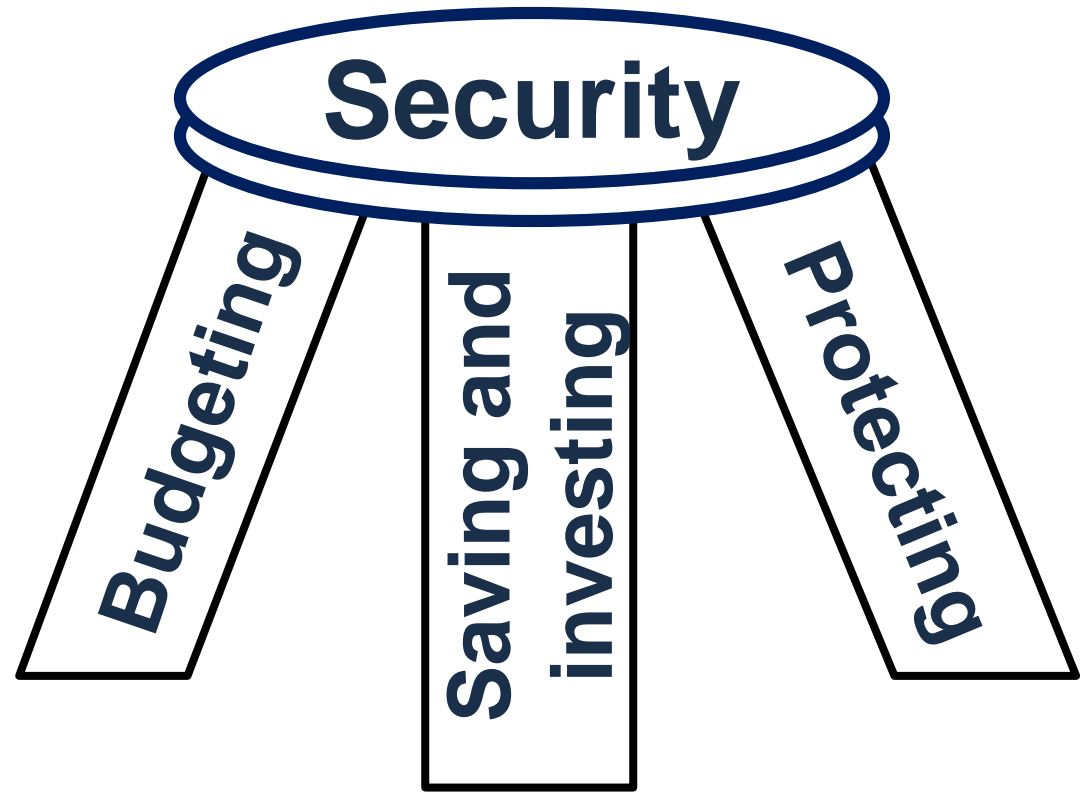


Agenda



Financial Independence

- Introduction
- Key Decisions
- Protecting
 - Survivor Benefit Plan (SBP)
 - Life Insurance
- Budgeting
 - Financial Planning
 - VA Benefits
 - Social Security
 - Health Insurance
- Savings & Investing
 - Investment Management



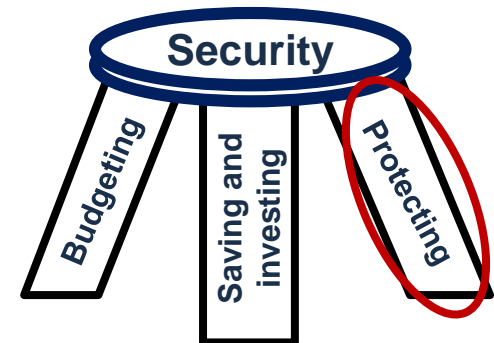
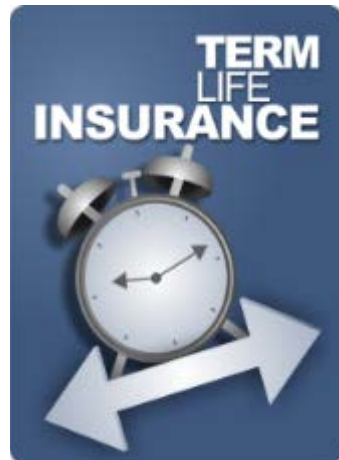


Protecting



**Survivor Benefit
Plan (SBP)**

Insurance (VGLI or ???)



Survivor Benefit Plan (SBP)

Lifetime Annuity **beneficiaries**
Subsidized benefit

6.5%

COLA

Spouse **55%**

Pre-tax

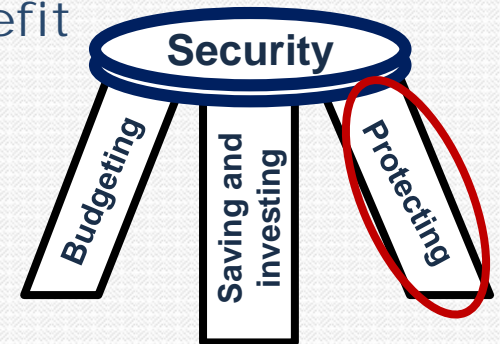
Retirement benefit

premium

Family

Survivors

Spouse concurrence



Life Expectancy

Child only



Survivor Benefit Plan (SBP) -- Basics

Total Retirement Pay:

2.5% * Years *

Highest salary (< 8 Sep 1980)

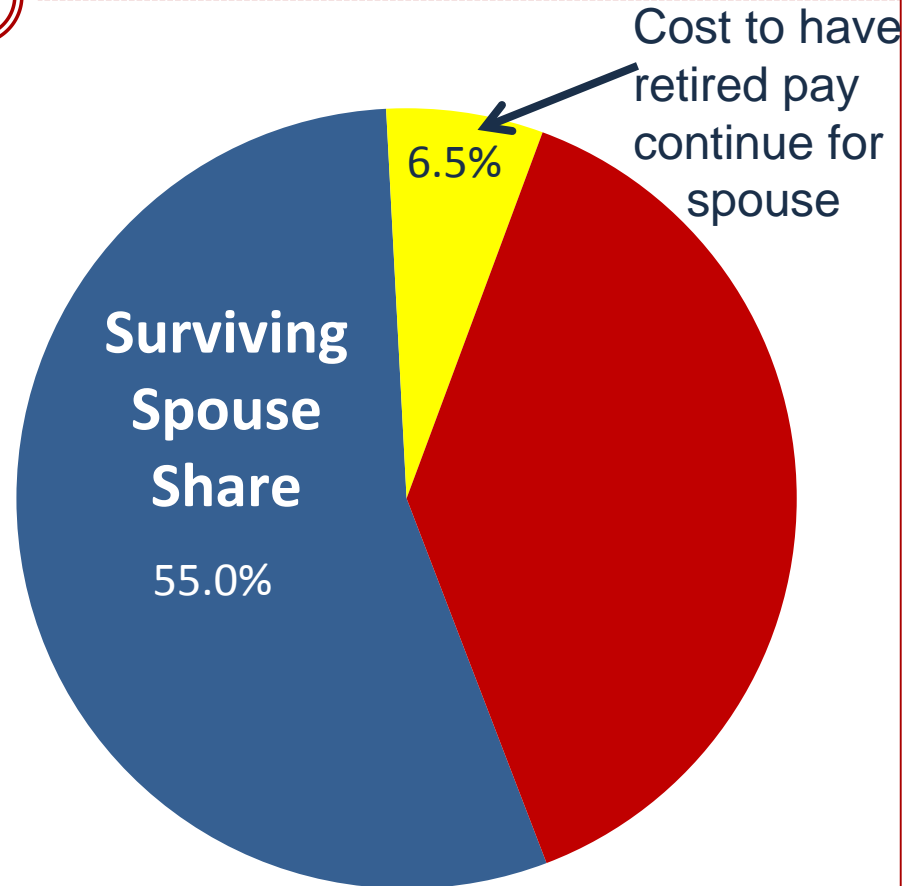
High-3 salary (>8 Sep 1980)

When you die, retired pay stops. SBP will continue to pay 55% of retired pay to your widow(er) in exchange for 6.5 percent of your retired pay (with pre-tax dollars)

Example: SGM with 30 years

Retired Pay = \$4,995/month

Is it worth \$325/month for spouse to get \$2,747/month after you die?





SBP – Considerations



- + COLA adjusted growth
- + Government subsidized
- + Paid with pre-tax dollars
- + No evidence of insurability
- + Paid up after 30 years
- + Spouse Age – not considered
- No return if spouse dies first
- No cash value
- Benefit is taxable
- No residual estate
- Spouse payment ends if remarried before age 55

~ Must get spouse concurrence to take less than maximum



~ Permanent choice (can disenroll at 24-36 months)



SBP vs. Life Insurance



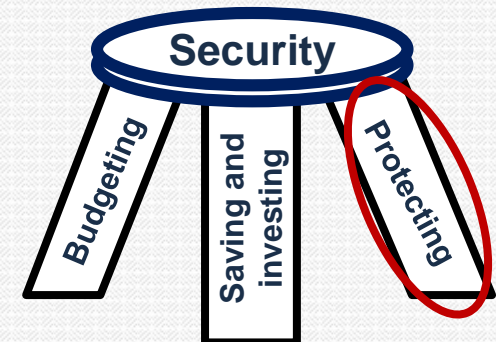
SBP

- + Lifetime, monthly, COLA adjusted benefit
- + Pre-tax premiums
- Fixed beneficiary(ies), i.e. spouse
- + Age, health, lifestyle NOT considered

Insurance

- Fixed sum benefit
- No tax break on premiums
- + May change beneficiaries anytime and have remaining estate
- Eligibility based on health, age, lifestyle

Life Insurance





Life Insurance Basics



- It's not for YOU – it's for your survivors
- Primary reasons to purchase:
 - Estate and Final expenses:
 - ✦ Funeral and transition costs
 - ✦ Pay off debts
 - Provide income for survivors:
 - ✦ Replace lost income
 - ✦ Child care or education expenses
- Two basic types: Term and Permanent
- Needs vary over lifetime
 - Highest when income loss would be traumatic
 - Lower after age 60/65/70... when living on retirement
- Cost depends on age, health, type of policy





Term Life Insurance



- Known period of time
 - Example:
 - ✦ 20 years
 - ✦ Until age 70
 - ✦ Duration of mortgage
- Low cost
- Large death benefit - \$50K to \$1 Million
- Most coverage for least cost
- Used by those working to cover:
 - Mortgage debt
 - Lost income
 - Child care
 - Education expenses





Veterans Group Life Insurance (VGLI)



- Term/Temporary Life Insurance Policy -- Renewable
- Maximum coverage \$400,000 (like SGLI)
 - Available in increments of \$10,000
 - Accelerated death benefit option (50% of death benefit paid if terminally ill)
 - Convertible to permanent (whole life) commercial policy
 - Renewable at 5-year intervals
 - ***No proof of medical insurability if elected within 240 days of separation/retirement***
- Have one year and 120 days to elect VGLI coverage (but do it in first 240 days!)



VGLI Rates - \$400,000 Coverage



Age	Monthly Premium
Current SGLI Premium	\$28.00*
40 – 44	\$68.00
45 – 49	\$88.00
50 – 54	\$144.00
55 – 59	\$268.00
60 – 64	\$432.00
65 – 69	\$600.00
70 – 74	\$920.00*
75+	\$1,840.00*

*Increased July 2014



Age, Conditions affect Rates



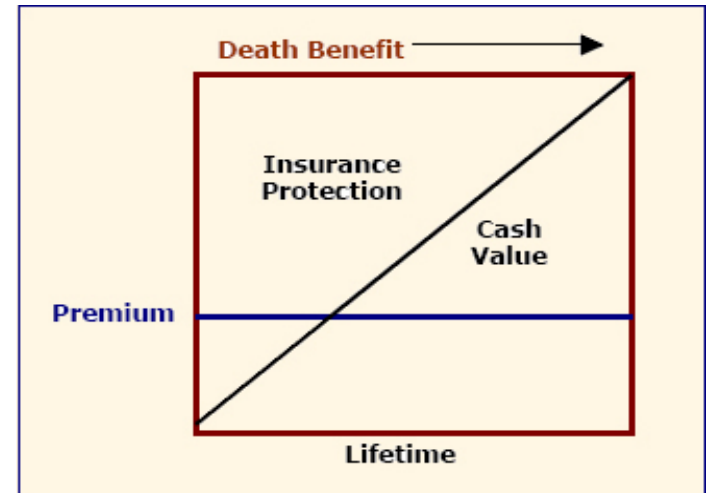
Assumption: \$400,000 Term Insurance for non-smoking 53 year old male with a 20 year level term—varying AAFMAA rates:

	VGLI	Super Select	Select	Standard	Class 1	Class 2	USAA LT V
50 – 54	\$144.00	\$79.80	\$95.00	\$155.00	\$232.50	\$310.00	\$196.15
55 – 59	\$268.00	↓	↓	↓	↓	↓	↓
60 – 64	\$432.00	↓	↓	↓	↓	↓	↓
65 – 69	\$600.00	↓	↓	↓	↓	↓	↓
70-74	\$920.00	\$79.80	\$95.00	\$155.00	\$232.50	\$310.00	\$196.15
Smoker Rates		n/a	\$296.60	\$419.40	\$629.10	\$838.80	\$510.13



Whole Life Insurance

- Provides permanent coverage until death
- Builds cash value
- Higher premiums than term
- Can “cash out” or “borrow against” earnings
- Proceeds generally pass tax free to heirs
- Usually smaller face amounts:
\$10K - \$200K
- Some have Long Term Care Settlement Options
- Costs may still be reasonable





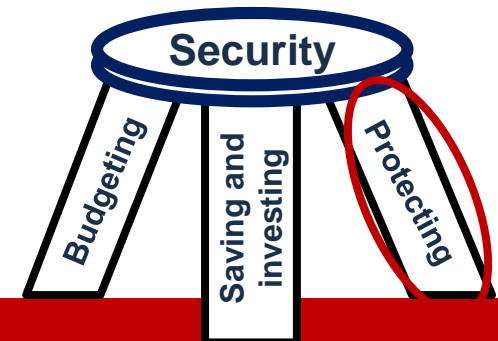
Long Term Care (LTC) Planning



- About 70% of people age 65+ will need some long term care
- Average long term care is 2 to 2 ½ years
- Costs vary based upon location:

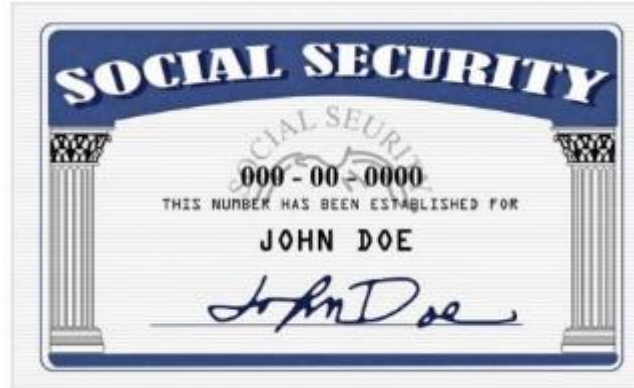
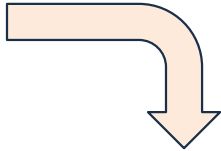
Annual Cost	Private Room Nursing Home	Private Room Assisted Living	Home Health Aide
Alabama	\$ 71,540	\$ 34,728	\$ 36,608
Virginia	\$ 84,315	\$ 47,880	\$ 43,472
Texas	\$ 65,700	\$ 42,270	\$ 41,184
Washington (State)	\$ 95,986	\$ 51,000	\$ 51,366

- You need a Long Term Care Plan—not necessarily insurance:
 - Family Members
 - Personal savings/income
 - LTC insurance: Federal (www.ltcfeds.com)
 - Life Insurance with LTC Settlement Option





Budgeting

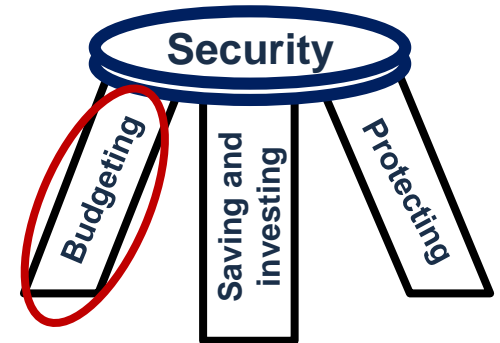
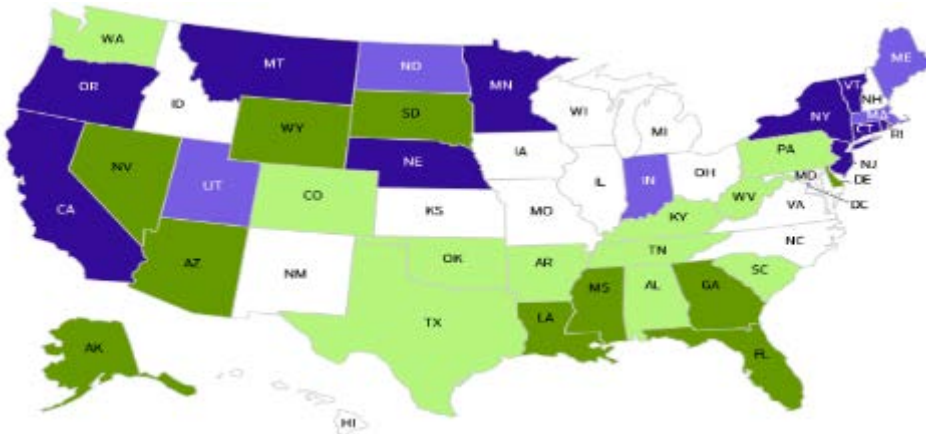


Veterans Benefits Planning



Retiree Tax Map
Source: Kiplinger's

■ MOST TAX-FRIENDLY ■ TAX-FRIENDLY □ MIXED
■ NOT TAX-FRIENDLY ■ LEAST TAX-FRIENDLY





What should be in a Financial Plan?



□ Balance Sheet

- + What assets do I have?
- What do I owe?
- = What's my net worth?

□ Budget

- + What income can I expect?
Retirement, VA, Social Security
- What expenses do I expect?
- Who else will I support--
children, parents, others?
- = What will my cash flow be?

□ Risks—Protect Against Them:

- ▣ How much life insurance?
What will my survivors need?
- ▣ How much Long Term Care?
- ▣ How much of a safety fund?

□ Goals—Saving & Investing:

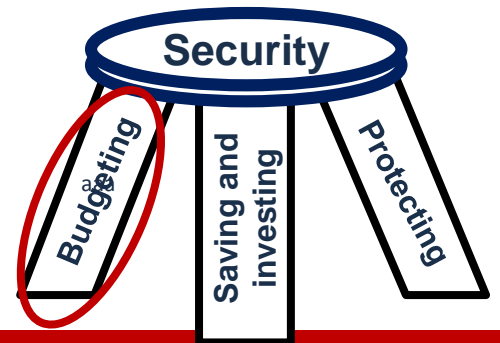
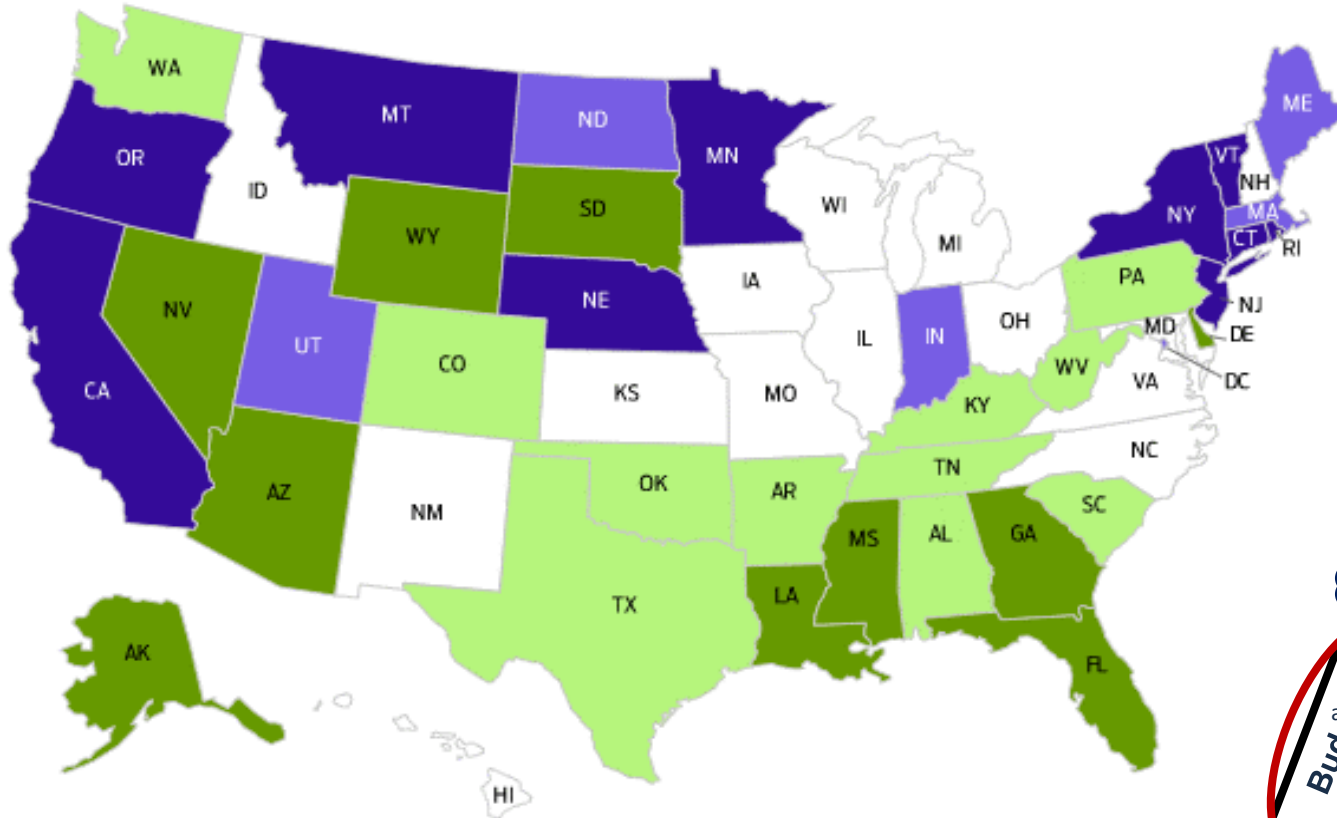
- ▣ What funds for retirement?
- ▣ Do I need more?
- ▣ What financial vehicles?
- ▣ How to adapt existing
investments?
- ▣ Other financial goals?



Taxes and Benefits Matter



Retiree Tax Map
Source: Kiplinger's



VA Benefits



[Home](#)
[News](#)
[Travel](#)
[Money](#)
[Sports](#)
[Life](#)

News » [Health & Behavior](#) » [Fitness & Nutrition](#) » [Your Health: Kim Painter](#)

VA sees sharp rise in apnea cases

Updated 6/7/2010 11:44 AM | [Comment](#) | [Recommend](#)

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By Tom Vanden Brook, USA TODAY

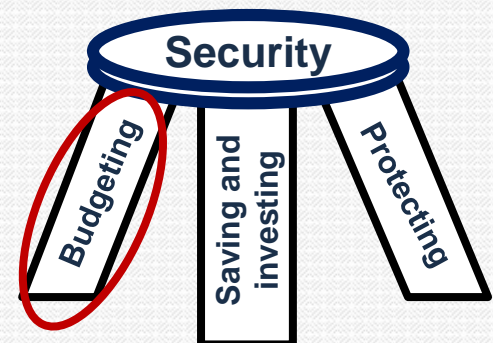
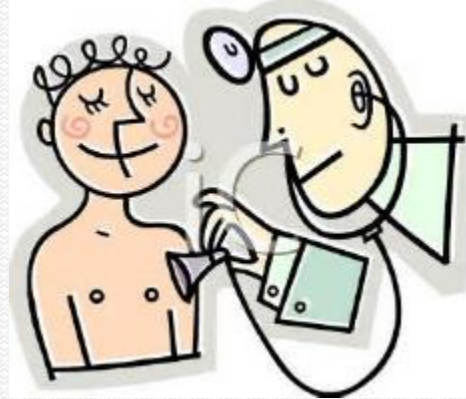
VETERANS GETTING APNEA PAYMENTS

By Julie Snider, USA TODAY
Source: Veterans Affairs Department

WASHINGTON — The number of veterans receiving disability benefits for a sleeping disorder has increased 61% in the past two years and now costs taxpayers more than \$500 million per year, according to Veterans Affairs data released to USA TODAY.

More than 63,000 veterans receive benefits for sleep apnea, a disorder that causes a sleeping person to gasp for breath and awaken frequently. It is linked to problems

ranging from daytime drowsiness to heart disease. The top risk factor for contracting the disorder appears to be obesity, though a sleep expert at the VA and a veteran's advocacy organization cite troops' exposure to dust and smoke in places such as [Afghanistan](#) and [Iraq](#) as contributing factors.





Why is VA Rating Important?



- Forces you to document your medical history
- Gives you priority in VA system
- Helps prove service connection if condition worsens
- Provides tax free VA compensation
- Can provide additional pay for:
 - Combat Related Disability **or**
 - Concurrent Receipt for over 50% disability
- Supports service-connected death claim

Also be sure to check regarding presumed service-connected conditions



VA Disability and Retired Pay



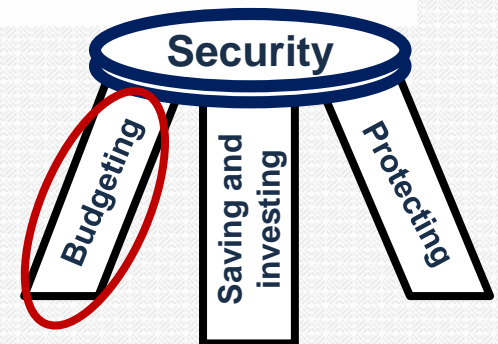
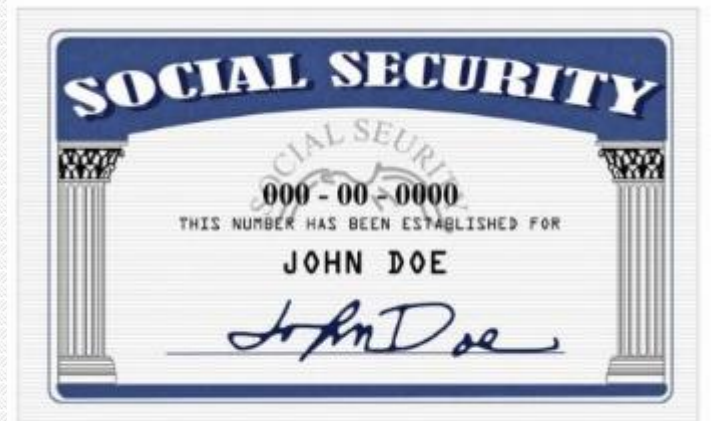
Retired Pay (SGM @ 30 yrs)	\$ 4,995
VA Disability (assume 30%)*	<u>- 456</u>
DFAS (Taxable Pay)	\$ 4,539
VA (non-taxable pay)	<u>+ 456</u>
	\$ 4,995

Benefit of VA Disability	}	15% Marginal Tax ($\$456 \times .15$) = \$68.40
		28% Marginal Tax ($\$456 \times .28$) = \$127.68
		31% Marginal Tax ($\$456 \times .31$) = \$141.36

***If $\geq 50\%$ or combat related \rightarrow VA Pay is additive**

Social Security Benefits

- How it Works
- How to Use It





Full Social Security Benefits

Social Security Act of 1983



Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1945 – 54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67



Social Security – Considerations



Retirement Benefits:

- Can start at age 62
- “Full Retirement” at ~ 67
- Automatic at 70

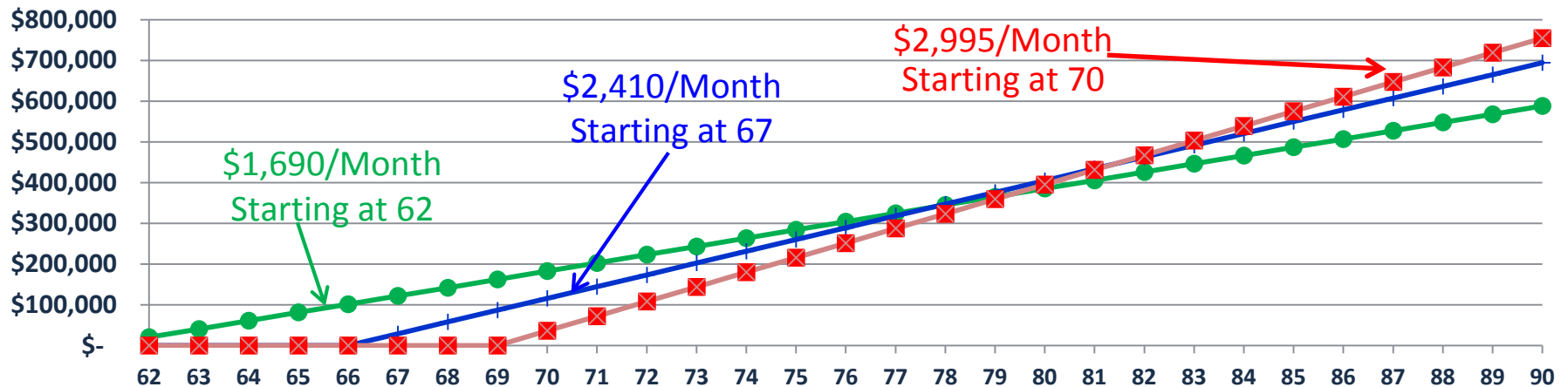
Example Amt:

\$1,690/month

\$2,410/month

\$2,995/month

Total Social Security Received



- Get your personalized values at: <http://ssa.gov/>

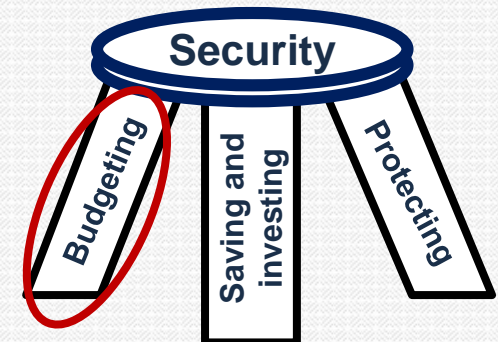
Tell me when you're going to die....

Health Insurance

- Medical
- Dental
- Long Term Care



The **Federal** Long Term Care Insurance Program





TRICARE for Retirees



	TRICARE Prime	TRICARE Standard and Extra
What is it?	Managed Care Option	Fee-for-service
Who do you see?	Works through PCM (like active duty); no claims; referrals to specialists; In specified areas	Any authorized provider; you or provider submit claim form; referrals not required; authorization required for some procedures
Enrollment and Fixed costs	Enrollment required \$ 282/individual \$ 565/family	No enrollment Deductible: \$150/person \$300/family
Variable Costs	\$0 preventative services \$12/visit for PCM/referrals \$20/ambulance \$30/emergency room \$25/behavioral health outpatient \$40/behavioral health inpatient \$11/day in hospital	20% of “Extra” in network provider 25% of “Standard” non-network 25% or 20% /ambulance 25% or 20% /emergency room 25% or 20% /behavioral health \$250 or 25%/day in-network hospital \$698 or 25%/day non-network hospital
Pharmacy	\$0 - \$24/medicine	\$0 - \$24/medicine [same]
Catastrophic Cap	\$ 3,000/family per year	\$ 3,000/family per year [same]



TRICARE Retiree Dental Program

- Monthly cost (varies by state: indiv, couple, family):
 - VA: \$38, \$75, \$136
 - TX: \$30, \$60, \$109
 - CO: \$35, \$68, \$123
 - PA: \$27, \$54, \$96
- Shop on internet to find other coverage that may be more appropriate and less expensive.

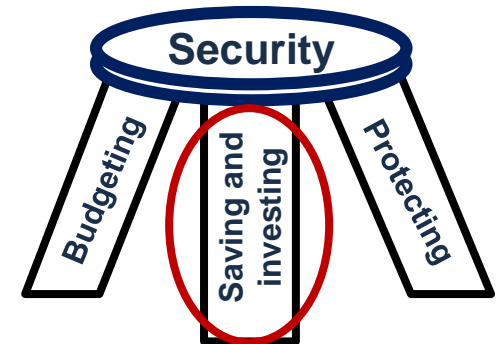
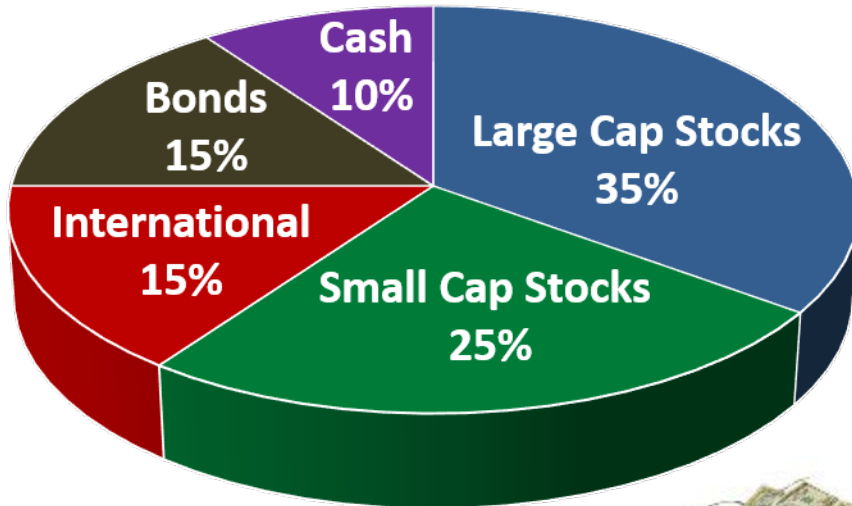
Diagnostic/Preventative (exams/cleaning)	100%
Basic Restorative (fillings)	80%
Major Dental Care (Root canal, etc.)	60%
Emergency (minor pain)	80%
Dental Accident Coverage	100%
Crowns, Bridges, Dentures, Implants	50%
Orthodontics	50%
Annual Deductible	\$50 person \$150 family
Annual Maximum (per person, per benefit year)	\$1300
Orthodontic Maximum (per person, per lifetime)	\$1750
Dental Accident Maximum (per person, per benefit year)	\$1200



Saving/Investing



Asset Allocation





Gambling vs. Stock Market



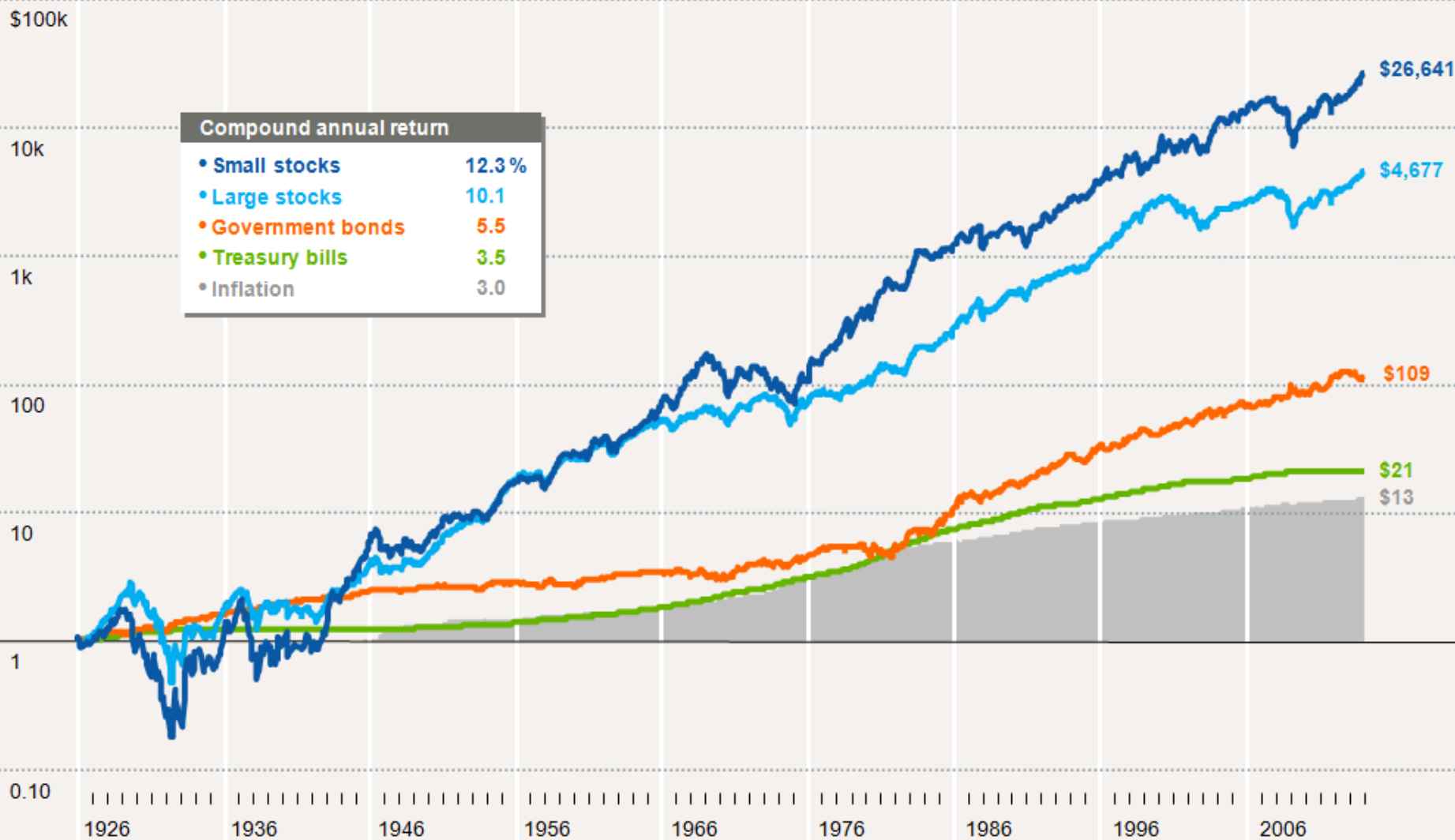
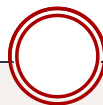
Gambling: mathematically, the longer you play, the higher the probability you will **lose** money. Diversification of games does not lower risk of loss.



Stock Market: historically, the longer you are invested, the higher the probability you will **make** money. Diversification does lower the risk of loss.



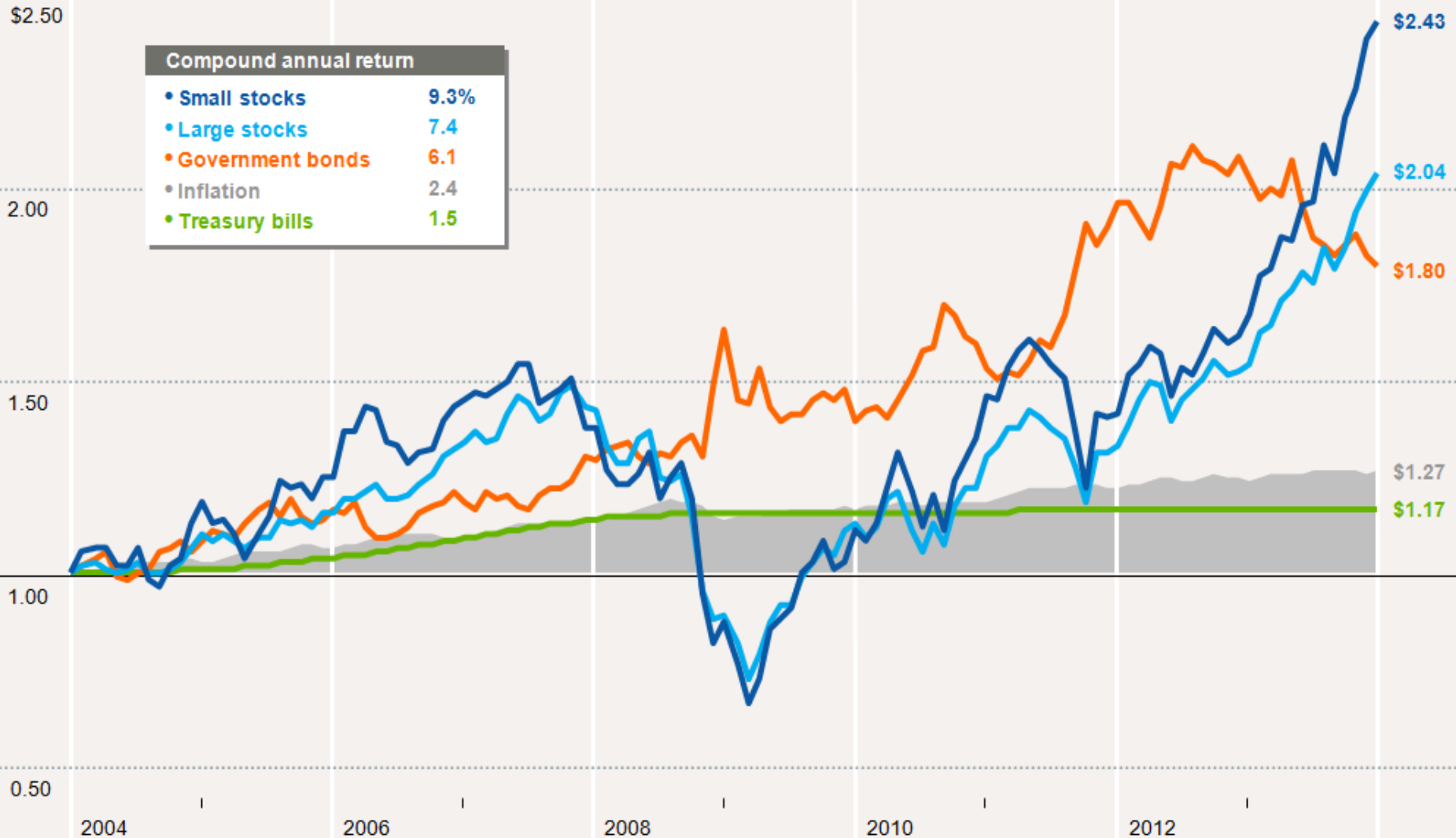
Stocks, Bonds, and Inflation



Source: Morningstar, 2014



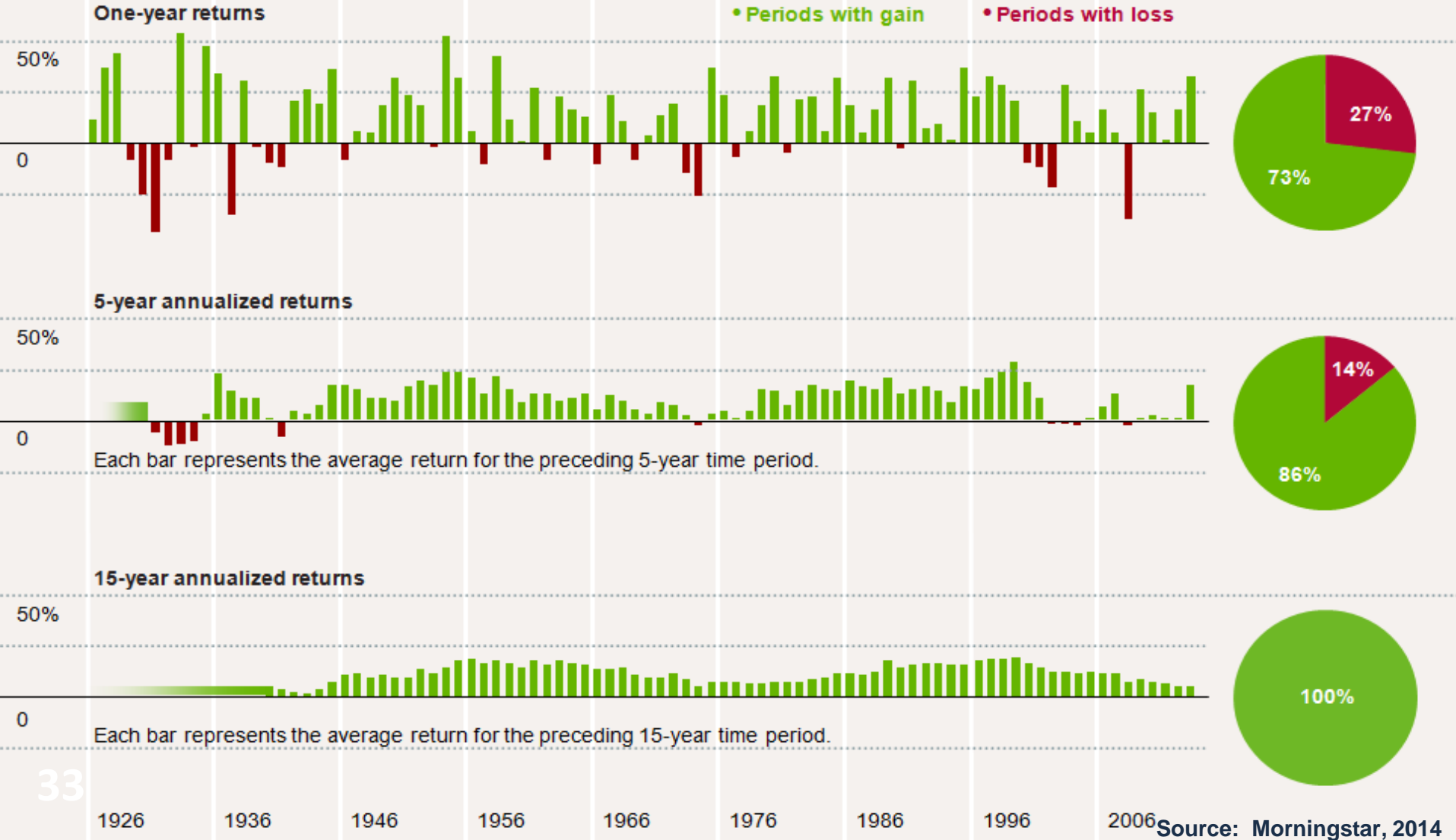
The Past 10 Years



Source: Morningstar, 2014



Risks of Stock Market Loss over Time





Four Guiding Investment Principles



- **Behavior** matters...understand risk and know yourself.



- **Own** a % of the economy to grow wealth and beat inflation.



- **Diversification** reduces portfolio risk.



- **Time** reduces volatility (uncertainty) of returns.





What's In An Investment Plan?



- Income Needs: How much do you need to meet a financial goal?
- Time Horizon: When do you need it?
- Liquidity Needs: Do you have a safety fund?
- Risk Tolerance:
 - What level of volatility can you tolerate?
 - Does the investment vehicle match your goal and time horizon?
- Tax Situation: What are the implications of your choices for the first four questions?

The answers will determine your strategic (long term) asset allocation



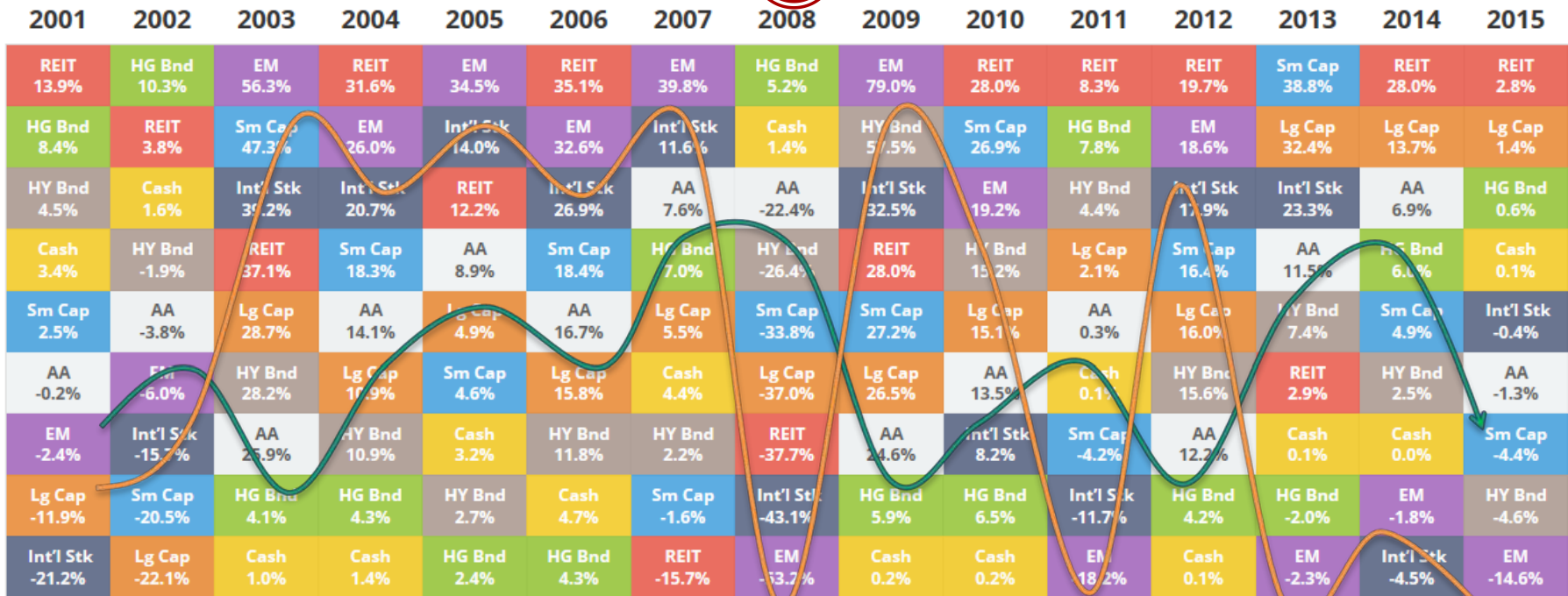
The Importance of Asset Allocation



- Asset allocation blends different types of investments (stocks, bonds, cash, real estate, etc.)
- ...determines 90-93% of investment success, so....
-exposure to a certain asset class is more important than specific securities within that class.
- Good asset allocation balances risk with return, so that an investor is adequately compensated for assuming certain risks.



Asset Class Winners and Losers



Abbr.	Asset Class - Index	Annual	Best	Worst
Lg Cap	Large Caps Stocks - S&P 500 Index	5.00%	32.4%	-37.0%
Sm Cap	Small Cap Stocks - Russell 2000 Index	7.27%	47.3%	-33.8%
Int'l Stk	International Developed Stocks - MSCI EAFE Index	3.98%	39.2%	-43.1%
EM	Emerging Market Stocks - MSCI Emerging Markets Index	8.87%	79.0%	-53.2%
REIT	REITs - FTSE NAREIT All Equity Index	11.14%	37.1%	-37.7%
HG Bnd	High Grade Bonds - Barclay's U.S. Aggregate Bond Index	4.97%	10.3%	-2.0%
HY Bnd	High Yield Bonds - BofAML US High Yield Master II Index	7.57%	57.5%	-26.4%
Cash	Cash - 3 Month Treasury Bill Rate	1.42%	4.7%	0.0%
AA	Asset Allocation Portfolio*	6.96%	25.9%	-22.4%

Past performance does not guarantee future returns. The historical performance shows changes in market trends across several asset classes over the past fifteen years. Returns represent total annual returns (reinvestment of all distributions) and does not include fees and expenses. The investments you choose should reflect your financial goals and risk tolerance. For assistance, talk to a financial professional. All data are as of 12/31/15.

*Asset Allocation Portfolio is made up of 15% large cap stocks, 15% international stocks, 10% small cap stocks, 10% emerging market stocks, 10% REITs, 40% high-grade bonds, and annual rebalancing.

Source: Novel Investor, last accessed on-line at <https://novelinvestor.com/asset-class-returns/>, 2 MAR 2016



Who is Your Advisor Working For?



- How is your investment advisor compensated?

Three methods:

- A flat percentage fee based on account value (Fee **ONLY**)
- A commission structure, with fees assessed against each transaction
- Combination of both fees and commissions (Fee **BASED** - ask about Series 6 or Series 7 registration)





Questions?



AAFMAA

COMPASSION • TRUST • PROTECTION

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(703) 707-4509



Resources



Social Security

1-800-772-1213

www.ssa.gov

Survivor Benefit Plan (SBP)

<http://militarypay.defense.gov/survivor/sbp/index.html>

SBP vs. Insurance

<http://actuary.defense.gov/>

Veterans Administration

1-800-827-1000

www.va.gov

Retired Pay (DFAS – Cleveland)

1-800-321-1080

<http://www.dfas.mil/retiredmilitary.html>

