



Investment House, LLC
Nisonger, Smestad & Mungall
Joanne D. Mungall, CFP®
1515 Lincoln Avenue
San Jose, CA 95125
408-286-8483
joanne@yourinvestmenthouse.com

INVESTMENT HOUSE, LLC

Financial Solutions Under One Roof

What Is a Private Insurance Exchange?



The Patient Protection and Affordable Care Act (ACA) provides for the creation of government-sponsored health insurance Exchange Marketplaces through which consumers and small businesses (fewer than 50 full-time equivalent employees) can comparison shop for health insurance that meets the minimum requirements of the ACA. Consumers and small businesses also may use Exchange Marketplaces to apply for tax credits that help offset the cost of health insurance. Government Exchange Marketplaces also provide the venue through which consumers may apply for an exemption to the ACA's health insurance mandate that requires most people to have health insurance coverage.

But government Exchange Marketplaces are not the only health insurance forums through which consumers and businesses may shop for insurance. Private exchanges are growing in number and popularity for both individual consumers and businesses.

What is a private exchange?

A private exchange is typically an online resource set up by insurance brokers, insurance companies, or benefit consultants, through which consumers and businesses can shop for health insurance, enroll in a plan, and receive customer support. Private exchanges are not part of the ACA, so unlike government Exchange Marketplaces, private exchanges don't offer tax credits, nor do they provide exemptions to consumers from the health insurance mandate. However, some private exchanges may offer help to consumers enrolling for coverage through government Exchange Marketplaces, especially if the consumer may be eligible for tax credits.

What do private exchanges offer?

Private exchanges typically offer two or more health insurance options, which may be from a single carrier or multiple insurers. Private exchanges may also provide:

- Information on available insurance options

- Assistance and recommendations about what insurance best fits the needs of the consumer
- Automated billing and processing
- Insurance products that can't be purchased through a government Exchange Marketplace such as vision, dental, hospitalization, disability, long-term care, life, and property insurance

Types of private exchanges

Generally, there are three types of private insurance exchanges, although some private exchanges may offer a combination of services and products. Private exchanges may be described as follows:

Individual private exchange

These exchanges offer insurance products and services to individual consumers and their families. Health insurance policies must meet the requirements of the ACA as to underwriting, benefits, and cost. However, consumers are not able to receive premium tax credits or cost-sharing reductions directly through an individual private exchange.

Group private exchange

Group private exchanges service employers that provide fully insured health coverage to their employees. Employers may have several major medical insurance options available through the private exchange that can be offered to employees. In addition, employers may offer supplemental insurance products (e.g., life, accident, long-term care) to employees through the private exchange.

Employer-sponsored individual private exchange

Also referred to as defined contribution health care, employers commit a stated dollar amount to the employee for individual or family coverage. Employees then select from a variety of plans offered by the private exchange that best meet their respective needs and add their own salary-deferred contributions to cover the premium exceeding the employer's contribution.

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Financial Choices: College, Retirement, or Both?



A juggling act

It's the paramount financial conflict many families face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.

Note

**All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.*

Life is full of choices. Should you watch *Breaking Bad* or *Modern Family*? Eat leftovers for dinner or order out? Exercise before work or after? Some choices, though, are much more significant. Here is one such financial dilemma for parents.

Should you save for retirement or college?

It's the paramount financial conflict many parents face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.

Over the past 20 years, college costs have grown roughly 4% to 6% each year--generally double the rate of inflation and typical salary increases--with the price for four years at an average private college now hitting \$192,876, and a whopping \$262,917 at the most expensive private colleges. Even public colleges, whose costs a generation ago could be covered mostly by student summer jobs and some parental scrimping, now total about \$100,000 for four years (Source: College Board's Trends in College Pricing 2013 and assumed 5% annual college inflation). Many parents have more than one child, adding to the strain. Yet without a college degree, many jobs and career paths are off limits.

On the other side, the pressure to save for retirement is intense. Longer life expectancies, disappearing pensions, and the uncertainty of Social Security's long-term fiscal health make it critical to build the biggest nest egg you can during your working years. In order to maintain your current standard of living in retirement, a general guideline is to accumulate enough savings to replace 60% to 90% of your current income in retirement--a sum that could equal hundreds of thousands of dollars or more. And with retirements that can last 20 to 30 years or longer, it's essential to factor in inflation, which can take a big bite out of your purchasing power and has averaged 2.5% per year over the past 20 years (Source: Consumer Price Index data published by the U.S. Department of Labor, 2013).

So with these two competing financial needs and often limited funds, what's a parent to do?

The prevailing wisdom

Answer: retirement should win out. Saving for retirement should be something you do no matter what. It's an investment in your future security when you'll no longer be bringing home a paycheck, and it generally should take precedence over saving for your child's college education.

It's akin to putting on your own oxygen mask first, and then securing your child's. Unless your retirement plan is to have your children be on the hook for taking care of you financially later in life, retirement funding should come first.

And yet ...

It's unrealistic to expect parents to ignore college funding altogether, and that approach really isn't smart anyway because regular contributions--even small ones--can add up over time. One possible solution is to figure out what you can afford to save each month and then split your savings, with a focus on retirement. So, for example, you might decide to allocate 85% of your savings to retirement and 15% to college, or 80/20 or 75/25, or whatever ratio works for you.

Although saving for retirement should take priority, setting aside even a small amount for college can help. For example, parents of a preschooler who save \$100 per month for 15 years would have \$24,609, assuming an average 4% return. Saving \$200 per month in the same scenario would net \$49,218.* These aren't staggering numbers, but you might be able to add to your savings over the years, and if nothing else, think of this sum as a down payment--many parents don't save the full amount before college. Rather, they try to save as much as they can, then look for other ways to help pay the bills at college time. Like what?

Loans, for one. Borrowing excessively isn't prudent, but the federal government allows undergraduate students to borrow up to \$27,000 in Stafford Loans over four years--a relatively reasonable amount--and these loans come with an income-based repayment option down the road. In addition, your child can apply for merit scholarships at the colleges he or she is applying to, and may be eligible for need-based college grants. And there are other ways to lower costs--like attending State U over Private U, living at home, graduating in three years instead of four, earning credits through MOOCs (massive open online courses), working during college, or maybe not attending college right away or even at all.

In fact, last summer, a senior vice president at Google responsible for hiring practices at the company noted that 14% of some teams included people who never went to college, but who nevertheless possessed the problem solving, leadership, intellectual humility, and creative skills Google is looking for ("In Head-Hunting, Big Data May Not Be Such a Big Deal," *New York Times*, June 19, 2013). One more reason to put a check in the retirement column.



Is retirement saving with an IUL policy right for you?

IUL may be an option if:

- You want permanent cash value life insurance with the associated death benefit
- You understand that mortality charges and other expenses can decrease your cash value
- You like the potential of cash accumulation coupled with the opportunity to earn interest based on positive market index returns
- You intend to keep the policy for a long time (usually at least 10 years) before taking withdrawals from cash values

***Policy guarantees are subject to the claims-paying ability of the insurance issuer.**

Retirement Planning with Indexed Universal Life Insurance

The cash accumulations of cash value life insurance may be used to supplement other sources of retirement income. Cash value life insurance refers to a wide variety of insurance policies that provide both a death benefit and the potential accumulation of cash value over a period of time. Indexed universal life insurance (IUL) is a type of cash value life insurance with features that make it an appealing choice as a retirement savings vehicle because it offers an index account option that credits interest to cash value based, in part, on the performance of a market index (e.g., S&P 500, Dow Jones Industrial Average, NASDAQ). The amount of interest credited depends on specific policy provisions. Indexing methods are complex and are subject to conditions and limitations, which should be considered carefully before investing.

How does IUL work?

Like typical universal life insurance, after payment of insurance costs and charges, excess IUL premiums are deposited into a cash value account. However, unlike universal life, interest earnings on cash values in an IUL are tied to the performance of a market index. The amount of interest that is credited depends on specific policy provisions and how well the market index performs.

Once an index is identified, the performance of the index is measured over a period of time, called the term. The term can be one year, two years, or many consecutive years, although often the term is one year. If the index increases in value at the end of the term, the amount of the increase or gain that's credited to the IUL policy's cash value is based on a percentage of the gain, called the participation rate. For example, if the IUL has an 80% participation rate, then 80% of the gain in the index will be credited to the cash value, usually subject to a cap.

The cap sets the maximum amount of interest that is applied to the cash value of the IUL. If the cap is 10%, then the most interest credited to the policy's cash value will be no more than 10%. Index gain exceeding the cap is not credited to the cash value.

Cash values may be withdrawn

IUL cash values grow tax deferred, meaning, in most cases, you do not pay income tax on interest credited to cash values within the policy. However, you may be able to access the policy's cash value during your lifetime.

You can take tax-free withdrawals up to your policy basis (premiums paid), and you can take policy loans against the cash value as well. Cash withdrawals may be subject to surrender

or withdrawal charges that would reduce the policy's cash value. A fixed or variable interest rate will be charged. Keep in mind, however, that if you take a loan against your cash value, the death benefit available to your survivors will be reduced by the amount of the loan. In addition, policy loans may reduce available cash value and can cause your policy to lapse. Finally, you could face tax consequences if you surrender the policy with an outstanding loan against it. Different tax rules apply to withdrawals and loans from cash values if the policy is a modified endowment contract. In that case, withdrawals and loans are considered made from earnings first, and would be subject to income tax.

Using IUL for retirement

- Policy cash values are credited with interest based on gains, if any, in a market index.
- Generally, cash accumulation values of IUL policies are not affected by negative market returns. If the targeted market index loses value during the term, the policy's cash value will not suffer comparable losses, although no interest may be earned.
- Cash accumulation values grow tax deferred, and may be accessed on a tax-free basis.
- A tax-free death benefit is available to protect your loved ones from financial uncertainty in the event of your premature death.
- IUL offers flexibility through the ability to change the amount of death benefit, premium amounts, and payment frequency.

Other factors to consider

IUL cash values may experience little or no gain during periods of negative index returns. And interest rate caps may limit potential upside growth. Also, IUL has many "moving parts" that need to be considered. Policy fees, charges, and costs reduce your cash value. And withdrawals of cash values may cause your policy to lapse if you don't make additional premium payments or there isn't enough cash value to pay the costs of insurance.

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Nisonger, Smestad & Mungall
Joanne D. Mungall, CFP®
1515 Lincoln Avenue
San Jose, CA 95125
408-286-8483
joanne@yourinvestmenthouse.com

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Are con artists adopting trendy twists on old scams?

In a word, yes. You may be great at deleting e-mails from Nigerian princes to avoid online phishing, but fraudsters keep coming up with new schemes for prying information or money from potential victims. And while scams sometimes involve hot topics that are getting a lot of attention in the news, which may make them seem legitimate, they still may be based on old-school techniques such as phone calls.

If a broker contacts you about investing in high-yielding certificates of deposit, don't provide any information or send money right away. Why? Because of reports that scammers have been posing as brokers to pitch CDs, claiming to represent a legitimate firm--perhaps even one that you already do business with. They may give you a number to call or offer to have their supervisor send you forms to help you transfer funds in an attempt to acquire data that can be used to steal either your money or identity. Even caller ID can be rigged to fake a firm's number; check the number independently with the firm's website or your own records and call directly to verify the caller's identity.

Another area ripe for fraud is linked to the

recent legalization of medical or recreational marijuana in some states. As with any enterprise making headlines, so-called "pump-and-dump" artists have begun touting small, thinly traded companies linked to that industry. In many cases, they hope to inflate demand and drive up the stock price quickly--the "pump"--and then dump their vastly inflated shares at a profit, leaving their victims holding the bag(gie). Any unproven company in a relatively new industry deserves extra scrutiny of its financials, management, business plan, and other information. Don't be rushed into a decision just because a stranger tells you the window of opportunity is closing or promises fast profits.

Finally, if you receive a phone call threatening you with jail time or the loss of your driver's license unless you pay what you owe the IRS, don't panic, even if they cite part of your Social Security number or you also get a call from your local police department or motor vehicles department that seems to "verify" the claim. Again, your first step should be to contact the IRS, police, or motor vehicles department on your own, using a phone number you obtained yourself rather than one provided by a caller.

