



Beyond the Basics

Customized Wealth Strategies

Oppenheimer & Co. Inc.

Mark Baniszewski, Exec. Director - Investments
Caitlin Falenski, CSRPA
Assoc. Director - Investments
385 S. Eton
Birmingham, MI 48009
248-593-3727
248-593-3712
mark.baniszewski@opco.com
caitlin.falenski@opco.com

September 2019

Life Insurance with Long-Term Care Benefits
Social Security: Shoring Up America's Safety Net

How can I teach my high school student the importance of financial literacy?

Should parents "go for broke" on youth sports?

Do Millennials Need Life Insurance?



The financial challenges millennials face can be overwhelming. Many young adults have to figure out how to pay off college loans, save to buy a home or start a family, and sock away money for retirement.

Given these hurdles, it's no wonder that life insurance as a financial asset gets little to no attention. But it should. There are many reasons to have life insurance at a relatively young age, but here are some common ones.

Leaving your debts for others to pay

As a young adult, you become more independent and self-sufficient. While you no longer depend on others for your financial well-being, your death might still create a financial hardship for those you leave behind.

You may have debts such as a mortgage or student loans that are jointly held with another person. Or you may be paying your parents for loans they took out (e.g., PLUS loans) to help pay for your education. Your untimely death would leave others responsible for some or all of these debts. You might consider purchasing enough life insurance to cover your financial obligations so others don't have to.

Funeral expenses can also be a burden for those you leave behind. Life insurance could ease the financial burden of paying for your uninsured medical bills (if any) and for costs associated with your funeral and burial.

It's less expensive

Premiums for life insurance are based on many factors, including age and health. Certainly, the younger and presumably healthier you are, the less your coverage will cost. This is especially true if you are at a high risk for developing a medical condition later in life.

Replacing lost income

Someone may be relying on your income for financial support. For instance, you may be providing for a family member such as a parent, grandparent, or sibling. In each of these instances, how would your income be replaced

if you died? The death benefit from life insurance can help replace your income after you're gone.

Providing for your family

As your family grows, so do your financial responsibilities. There is likely a hefty mortgage to pay. And there are costs associated with young children. If you died without life insurance, how would the mortgage get paid? Could your surviving spouse or partner cover the costs of day care and housekeeping?

And there are events you should plan for now that won't happen until several years in the future. Maybe you'll begin saving for your kids' college education while trying to save as much as you can for your retirement. Over the next several decades, think about how much you could set aside for these expenses. If you are no longer around to make these contributions, life insurance can help fund these future accumulations.

Work coverage may not be enough

You may have a job with an employer that sponsors group life insurance. Hopefully, you take advantage of that program, but is it enough coverage to meet your needs now and in the future? Your insurance needs may change with time, although your employer's coverage may not. Also, most employer-sponsored life insurance programs are effective only while you remain an employee. If you change jobs or are unable to work due to illness or disability, you may lose your employer's coverage. That's why it's a good idea to consider buying your own life insurance.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.





Life Insurance with Long-Term Care Benefits

If you are concerned about the high costs of long-term care but don't want to purchase traditional long-term care (LTC) insurance, you might consider two strategies that combine permanent life insurance coverage with long-term care benefits.

Keep in mind that any payouts for covered LTC expenses reduce (and are usually limited to) the life insurance death benefit that would go to your heirs, and benefits can be much less than those of a traditional long-term care policy.

Accelerated death benefit (ADB) rider

An ADB rider attached to a permanent life insurance policy allows the insured to begin receiving benefits while he or she is still living, under specific circumstances.

In the past, ADB riders only paid when a policyholder was diagnosed with a terminal illness. However, more insurers now offer riders that start paying when a policyholder is diagnosed with a chronic illness, is permanently disabled, or needs to enter a nursing home.

Although some policies may include an ADB rider at little or no cost, ADB riders are generally optional and will increase the premium.

Hybrid life—LTC policy

This type of policy combines permanent life insurance and long-term care coverage. Many such policies require a substantial up-front premium, but buyers don't have to worry about future rate increases or the issuer canceling the policy.

For the same premium, a hybrid policy typically has a smaller death benefit than a life policy with an ADB rider. However, the LTC coverage is more generous than an ADB rider.

Benefits under a hybrid policy typically begin when the policyholder needs help with two or more activities of daily living such as eating, bathing, and dressing.

With an optional continuation-of-benefits rider, payouts for covered LTC expenses could continue for a specified period or your lifetime, even if they exceed the death benefit.

Financial flexibility

Another advantage of these strategies is that policyholders can tap into the cash value of the permanent life policy during retirement if money is needed for income or emergencies. Loans and withdrawals will reduce the policy's cash value and death benefit.

Other considerations

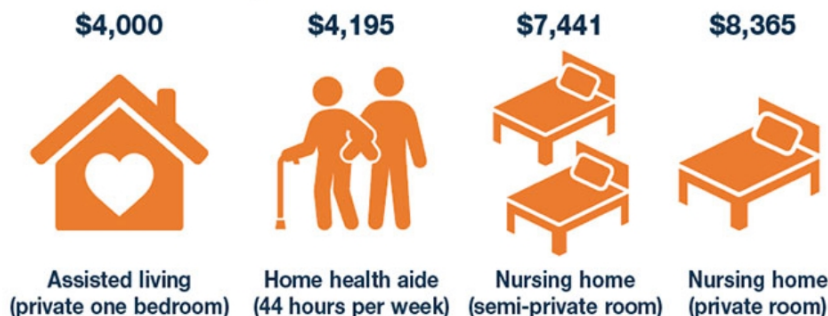
It would be wise to explore your LTC options while you are healthy. If you consider a life insurance policy with an ADB rider or a hybrid life-LTC policy, you should have a need for life insurance and evaluate the policy on its merits as life insurance.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. In addition to the life insurance premiums, other costs include mortality and expense charges. If a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Riders are subject to the contractual terms, conditions, and limitations outlined in the policy, and may not benefit all individuals.

Cost of Care

Long-term care costs vary widely by state and the type of care. Here are national median monthly costs for 2018.



Source: Genworth Cost of Care Survey, 2018



Social Security: Shoring Up America's Safety Net



Future projections

In 2019, the trustees of Social Security reported that the Old-Age and Survivors Insurance (OASI) trust fund is projected to run out in 2034. At that time, payroll tax revenue alone would be sufficient to pay 77% of scheduled benefits.

Ever since a legal secretary named Ida May Fuller received the first Social Security retirement check in 1940, Americans have been counting on Social Security to provide much-needed retirement income. For many older Americans, Social Security is their main source of guaranteed retirement income — income that continues throughout their lifetimes and is indexed for inflation every year (in 2019, the cost-of-living adjustment, or COLA, was 2.8%).

Social Security provides more than just retirement income, though. It also provides disability and survivor insurance benefits. About 62 million people — more than one in six U.S. residents — collected some type of Social Security benefit in 2018, with approximately 80% of these recipients receiving Social Security retirement or survivor benefits.¹

How Social Security works

Social Security is a pay-as-you-go system, which means that payments from current workers (in the form of payroll taxes) fund benefits for current beneficiaries. The payroll tax rate for Social Security is 12.4%, with 6.2% paid by the employee and 6.2% paid by the employer (self-employed individuals pay the entire 12.4%). These payroll taxes are deposited into the Old-Age and Survivors Insurance (OASI) trust fund (for retirement and survivor benefits) and the Disability Insurance (DI) trust fund (for disability payments).

Because of demographic and economic factors, including higher retirement rates and lower birth rates, there will be fewer workers per beneficiary over the long term, worsening the strain on the trust funds. This year, the trustees of Social Security reported that the OASI trust fund is projected to run out in 2034. After that, payroll tax revenue alone would be sufficient to pay 77% of scheduled benefits.

Ideas for reform

There has been little national consensus by policymakers on how to deal with Social Security's looming demographic challenges. Meaningful reform will require broad bipartisan support, and the trustees have urged Congress to address Social Security's challenges sooner rather than later, so that solutions will be less drastic and can be implemented gradually, lessening the impact on the public.

Some Social Security reform proposals on the table include:

- Raising the current Social Security payroll tax rate — according to the 2019 trustees report, an immediate and permanent payroll tax increase to 15.1% (up from the current 12.4%) would be necessary to address the

long-range revenue shortfall (16.05% if the increase started in 2035)

- Raising or eliminating the ceiling on wages currently subject to Social Security payroll taxes (\$132,900 in 2019)
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later)
- Reducing future benefits — to address the long-term revenue shortfall, the trustees have noted that scheduled benefits would have to be immediately and permanently reduced by about 17% for all current and future beneficiaries, or by approximately 20% if reductions were applied only to those who initially become eligible for benefits in 2019 or later
- Changing the formula that is used to calculate benefits
- Changing the formula that is used to calculate the annual cost-of-living adjustment for benefits

Understand your retirement benefits

The amount you'll receive from Social Security is based on the number of years you've worked, the amount you've earned over your lifetime, and the age when you file for benefits. Your benefit is calculated using a formula that takes into account your 35 highest earnings years, but you don't need to work for that long to qualify for retirement benefits. Generally, you need to have earned a minimum of 40 work credits, which is about 10 years of work in a job covered by Social Security. If you haven't worked long enough to qualify on your own, you may qualify for spousal benefits based on your spouse's work record. A spousal benefit claimed at your full retirement age is generally equal to 50% of the primary worker's full benefit.

You can get an estimate of your future Social Security retirement benefits by visiting the Social Security website at ssa.gov and using the Retirement Estimator tool or by viewing your Social Security Statement. Your personalized statement contains a detailed record of your earnings history, as well as estimates of the retirement, survivor, and disability benefits you can expect at different ages. To view your statement online, you'll first need to register. If you haven't registered online, you'll receive your Social Security Statement in the mail every year if you are age 60 or older and not yet receiving benefits.

¹ Top Ten Facts About Social Security, Center on Budget and Policy Priorities, August 14, 2018



Oppenheimer & Co. Inc.

Mark Baniszewski, Exec. Director
- Investments
Caitlin Falenski, CSRP®
Assoc. Director - Investments
385 S. Eton
Birmingham, MI 48009
248-593-3727
248-593-3712
mark.baniszewski@opco.com
caitlin.falenski@opco.com

This newsletter should not be construed as an offer to sell or the solicitation of an offer to buy any security. The information enclosed herewith has been obtained from outside sources and is not the product of Oppenheimer & Co. Inc. ("Oppenheimer") or its affiliates. Oppenheimer has not verified the information and does not guarantee its accuracy or completeness. Additional information is available upon request. Oppenheimer, nor any of its employees or affiliates, does not provide legal or tax advice. However, your Oppenheimer Financial Advisor will work with clients, their attorneys and their tax professionals to help ensure all of their needs are met and properly executed. Oppenheimer & Co. Inc. transacts business on all principal exchanges and SIPC.



How can I teach my high school student the importance of financial literacy?

Even though your child is just in high school, he or she may still have to deal with certain financial challenges. Whether this involves saving for an important purchase like a car or learning how to use a credit card responsibly, it's important for your high schooler to have a basic understanding of financial literacy concepts in order to manage his or her finances more effectively.

While financial literacy offerings in schools have increased in popularity, a recent study reported that only 17 states require high school students to take a personal finance course before they graduate.¹ Here are some ways you can teach high school students the importance of financial literacy.

Advocate saving. Encourage your children to set aside a portion of any money they receive from an allowance, gift, or job. Be sure to talk about goals that require a financial commitment, such as a car, college, and travel. As an added incentive, consider matching the funds they save for a worthy purpose.

Show them the numbers. Use an online calculator to demonstrate the concept of long-term investing and the power of compound interest. Your children may be surprised to see how fast invested funds can accumulate, especially when you match or contribute an additional amount each month.

Let them practice. Let older teens become responsible for paying certain expenses (e.g., clothing and entertainment). The possibility of running out of their own money might make them think more carefully about their spending habits and choices. It may also encourage them to budget their money more effectively.

Cover the basics. By the time your children graduate from high school, they should at least understand the basic concepts of financial literacy. This includes saving, investing, using credit responsibly, debt management, and protection planning with insurance.

¹ Survey of the States, Council for Economic Education, 2018



Should parents "go for broke" on youth sports?

Many parents encourage their kids to play organized sports because they believe the experience will be good for their physical and mental well-being. Athletic participation often provides an opportunity to instill discipline and develop social skills that could have a positive impact on their children's futures.

But kids play has morphed into big business. In 2018, the size of the U.S. youth sports market was estimated to be about \$17 billion.¹

The costs can really add up at more competitive levels, when payments for professional instruction, specialty equipment, and travel kick into high gear. On average, families with children who competed on elite teams spent an average of \$3,167 per player in 2018, up from \$1,976 in 2013.²

Lofty hopes and dreams might inspire some parents to overspend on youth sports. In fact, surveys suggest that many parents are willing to make big financial sacrifices to cover athletic costs, possibly even taking on credit card debt or delaying retirement.³ Unfortunately, some parents may have unrealistic expectations, such as those who are confident their children

will become professional athletes, despite the very long odds against it.

Parents who assume that investing in athletics will pay off with college scholarships are also likely to end up disappointed. Only about 2% of high school athletes benefit from athletic awards, and few of them are "full rides." Coaches often have more roster spots to fill than available scholarships, so many athletes receive partial awards that may cover only a small fraction of tuition costs.⁴

Although most parents have good intentions, there may be some unhealthy side effects. According to a 2016 research study, young athletes whose families devoted a large portion of their household income to sports felt more pressure to succeed and were less likely to enjoy the experience.⁵ And even if their kids love to play, parents should attempt to keep the costs in an affordable range so that other important financial goals (such as saving for college and retirement) are not neglected.

¹ WinterGreen Research, 2018

²⁻⁴ *The Wall Street Journal*, April 21, 2019

⁵ *Family Relations*, April 2016

