Jerry Ask, CFP®


# The JKA Report

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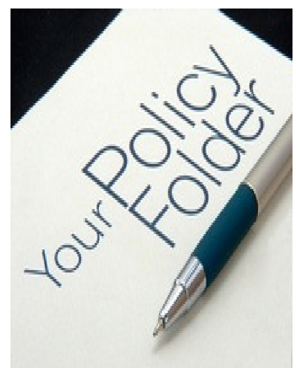
AN INVESTMENT NEWSLETTER FOR CLIENTS & PROSPECTS

Provided by Jerry K. Ask Investment Services


## Universal Life

### A Policy Gone Wrong

The example below, is a real life situation that illustrates the devastating effects of not reviewing your life insurance policy, especially any universal life policy, variable universal life policy, or equity index life policy. The names and company have been changed to protect privacy.




John Smith, a seventy-three year old gentleman, called into our office a few weeks ago inquiring about life insurance. He was looking for a policy to replace his existing universal life policy. Yes, at age seventy-three, he was looking at alternatives to his current policy. Why you ask? Over twenty years ago, he purchased a $500,000 face value, universal life policy with Company XYZ. All these years, he faithfully paid the premiums that were originally quoted at the time he applied for coverage and had NOT taken any policy loans or withdrawals.

Additionally, at one point only a few years ago, he had over $50,000 of cash value in his policy. So why was he looking at alternative options? Because of a period of significantly low interest rates (historically low), the policy did not perform as was originally projected and the policy's cash value ($50,000 at one point) did not grow as fast as expected.

As a result, the original premiums that were projected to sustain the policy over Mr. Smith's lifetime were significantly less than what the contract required, and because of that, the policy cash value was used to make up the difference. Since the cost of insurance rises as someone gets older, over time, the shortfall between the cost of insurance and actual premiums paid is eventually exceeded the policy cash value and the policy lapsed.

All the while, Mr. Smith had no annual life insurance reviews nor did his agent notify him what was transpiring only a small notice on the back side of his annual policy statement.

*(Continued on page 2)*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*"Soaring demand for fixed-income investments has pushed yields lower for everything from Treasurys and investment grade corporates to junk bonds.*

*Prices and yields move in opposite directions in bond markets.*

*Most bond professionals believe high-quality bonds are vulnerable to retrenchment as a gradual pickup in economic growth posses the risk of returning inflation."*

–Michael A. Pollock
Wall Street Journal
12/03/2012

So what happened? Since Mr. Smith was not kept informed by his agent, nor did he study the annual notice from his insurance company, and he really did not understand how his policy worked, he was startled when he received his last annual statement from Company XYZ. It asked him to pay a significantly higher premium than he has paid all these years (sometimes as much as five or ten times the original amount) or risk losing his coverage all together. That is right - he had no other option than to pay more or his policy would cease to be in force.

As you can imagine, Mr. Smith was shocked and confused by what happened. He had trusted his agent and Company XYZ to provide for his family's financial security and now was faced with a decision to let his life insurance go, pay premiums he could not afford, or shop around for a new policy with significantly less death benefit to stay within budget at age seventy-three.

If you can avoid looking for life insurance beyond age seventy, you certainly want to do it. When faced with the above alternatives, Mr. Smith wanted to see what he could afford for a new life policy. That is when he called our office.

Unfortunately, we could not help Mr. Smith find a new policy. A few years ago he had a heart condition and had a procedure to implant a pacemaker; defibrillator, which rendered him uninsurable for affordable life insurance with every stand company.

With much regret, we had to tell Mr. Smith that we could not help him.

After paying premiums into his universal life policy for over twenty years, well over $75,000 in total payments, Mr. Smith was forced to drop his policy with NO cash value and eliminate ALL of his death benefit protection for his family.

The reality is the case of Mr. Smith is NOT an uncommon one. Many agents fail to provide on-going service to their clients.

Additionally, most people are not aware of the contract language of their life insurance policies. You can avoid the unfortunate outcome that befell Mr. Smith by reviewing your insurance coverage annually. If you have a universal life policy, variable universal life policy, or equity index life policy purchased prior to 2001, you owe it to yourself and your family to get an immediate life insurance policy review.

We encourage you to drop off your policies to Jerry K. Ask Investment Services or call (319) 395-9230 for an appointment.

Daniel Pettit, MBA
Director of Business Development
Financial Architects

# How Late is Too Late . . .

## . . . To Start Saving for Retirement?

This question is difficult because the answer depends on your income and assets, your goals for retirement, and many other factors. Ideally, you should begin saving for retirement in your 20s. More time to save enhances your chances of having the kind of retirement lifestyle you want.


If you're in your 40s or older and haven't saved much (or anything) yet, you may face a challenge in building the retirement fund you need. The shorter your time frame, the less room you have for error. But don't panic - it's never too late to start saving. You may still be able to secure a comfortable retirement for yourself, but you may have to make some tough choices to do so. Here are a few tips if you're getting a late start:

- **Save as much as possible**: The more you save, the more you'll have when you retire. Try to maximize your contributions to IRAs, 401(k)s, and other tax-advantaged vehicles. Then supplement your retirement fund with mutual funds, savings accounts, and other investments.
- **Cut current expenses:** Chances are, not all of your expenses are absolutely essential. If you can wipe out or trim certain expenses, such as videos, expensive coffees, and daily lunches out, you'll free up more money to invest for retirement.
- **Invest more aggressively:** This can help you build a large retirement fund in a short time. Certain stocks and mutual funds may enable your savings to grow more rapidly. The tradeoff: These investments are subject to market risk which will expose you to greater volatility, including a possible loss of principal.
- **Delay retirement:** You may have no choice but to delay your retirement until after age 65. This strategy will buy you more time to build your nest egg. Plus, the more years you work, the fewer years of retirement you'll have to fund.
- **Rethink your retirement goals?** Set more realistic goals for your retirement (no beach house on the Riviera, for example). That way, you won't need as much money to fund your retirement.

If you are concerned you're getting too late a start, or you're not sure where to start, **give us a call for a complimentary consultation.**

We can help you map out a plan to bridge the gap between where you are now and where you need to be when you retire.


*"Individual investors who scrambled into bonds after the financial crisis shook their faith in stocks, are showing signs of nerves."*

–Daniel Ivascyn
Managing Director at Pimco
Wall Street Journal
March 11, 2013

*"Because rates are low now, many investors are worried that even a small rise could be particularly painful for anyone holding Treasurys."*

–Matt Wirz
Wall Street Journal
March 11, 2013

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# Danger Lurks Inside The Bond Boom

*"Interest rates are so low and bond prices are so high, they warn, that there is little room left for gains. Some worry that even a small increase in interest rates – a traditional enemy of bond returns – could eat away at bond prices."*

-Patrick McGee, The Wall Street Journal, 12/07/12

**"It would take very little in the way of a rate increase for investors to lose their total returns across many traditional fixed income sectors."**

-Rick Rieder, BlackRock, Chief Investment Officer of Fundamental Fixed Income

**"Investors have been flocking to buy bonds issued by top-rated companies, putting them on pace for a record year of debt raising in the U.S. But some of the biggest fund managers warn that dangers are lurking in what were once seen as the safest investments."**

-Patrick McGee, The Wall Street Journal, 12/07/12

*"Fixed-income is becoming an asset class with more risk to it, and I think people underestimate that."*

-Rick Rieder, BlackRock, Chief Investment Officer of Fundamental Fixed Income

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