

# THE AIA TRUST FINANCIAL PLANNING GUIDE FOR COMPONENT EXECUTIVES



## TABLE OF CONTENTS

PLANNING FOR RETIREMENT	
When Do You Have Enough?	Page 2
Asset Allocation	3
Safe Harbor 401(k)s	4
Roth IRAs	5
LIFE INSURANCE	
How Much Do You Really Need?	Page 6
Term versus Whole	8
DISABILITY INSURANCE	
Facts	Page 10
How Much Do You Really Need?	11
EMPLOYEE BENEFITS	
Employee Life, Disability, & Health Insurance	Page 13
LONG TERM CARE INSURANCE	
What Is It and What Does It Cover?	Page 15
Ten Important Considerations	16
PERSONAL LIABILITY INSURANCE	Page 17

This information is provided as a service to AIA Components and neither the Author nor the AIA Trust is rendering legal or financial advice. Laws vary by state and readers should seek competent financial advice and/or legal counsel to evaluate these suggestions and to advise proper investment advice. The author and AIA Trust assume no liability for the use of this information by CACE members or others who agree to use this information at their sole risk. Any other reproduction or use is strictly prohibited.

## ***WHEN DO YOU HAVE ENOUGH TO RETIRE?***

### **PLANNING GUIDELINES**

#### **Early Career (Ages 25-35)**

- Start contributing to a 401(k) no matter what – \$500 contribution per month starting at age 25 with an annual average 7% return will yield a nest egg of \$1.3 million by retirement age! And, if you wait until you're 45 to contribute this same amount, you'll only end up with \$260,000.
- Pace your student loan payments and minimize large credit expenses to ensure you don't shortchange retirement contributions. If your employer offers matching funds, be sure you contribute sufficiently to obtain the entire match.
- In light of the time you have until retirement, place most of your money in stocks which, while riskier, yield greater earnings, and time will minimize market risk over the long haul.

#### **Growing Responsibilities (Ages 36 – 45)**

- Determine what you need annually during retirement, e.g. can you live on 80% of current annual income? Consider whether your mortgage will be paid and/or you'll relocate to a retirement community. Then, given 20-30 years until retirement, compute what annual savings rate you need to achieve it.
- Max out 401(k) contributions.
- If meet income limits, consider starting or adding to a Roth 401(k).
- If these contributions don't yield your goal, consider buying IRAs each year, and/or other long-term investments such as real estate.
- Build up an emergency fund of six months' expenses so problems won't cause you to invade your retirement fund.
- If you have financial responsibilities for others – children, spouse, parents – be sure to buy adequate life insurance for yourself.
- Be sure to carry disability insurance for yourself – and that your spouse is covered as well. You are much more likely to become disabled, even if only for several years, and that could cripple you financially whether you live on your own, are married, or have kids.

#### **Peak Earnings (Ages 46 – 55)**

- Resist scaling back retirement contributions to boost education savings for kids. Consider College loans and financial assistance to fund college educations.
- At age 50, start annual “catch-up” contributions up to \$5000 additionally for your 401(k).
- If meet income limits, consider starting or adding to a Roth 401(k)

- Develop realistic retirement budget that includes all of your interests! You want to have sufficient resources to pursue activities you enjoy – travel, golf, classes, clubs, etc.
- Verify your progress in retirement savings. If you're retiring in 15 years (age 50+), your savings should already be *at least three times* your annual income.
- Investigate long-term care insurance; prices generally rise at age 55.
- Continue to carry life insurance sufficient to cover family obligations if you have a family.
- Continue to carry disability insurance throughout your earning years to prevent a disability from curtailing your income.

**Pre-Retirement (Ages 56 – 65)**

- Consolidate 401(k) accounts and pensions from previous jobs into rollover IRA for easier management.
- Verify your progress in retirement savings. If you're retiring in 5 years (age 60+), your savings should be at least six times your annual income. Consider your spouse's needs & contributions.
- Consider shifting some of your portfolio from stocks to bonds for less risk, but maintain sufficient equities to provide growth during retirement.

## ***ASSET ALLOCATION: A SOUND INVESTMENT STRATEGY***

Your asset mix typically is determined by investment time frame and risk tolerance. Generally speaking, the longer time horizon, the more risk you may be able to take on. The shorter your time frame, the less risk you may want. Here's a closer look at risk and reward potential of the major types of assets:

**Stock funds:** Well-known for fluctuating in value, stocks carry a high level of market risk - the risk that your investment's value will decrease over the short term. However, stocks historically have earned higher long-term returns than either bonds or cash investments. Stock returns have also outpaced inflation - the rising prices of goods and services - through the years and, therefore, carry very low inflation risk.

**Bond funds:** In general, these investments experience fewer short-term price fluctuations than stocks and, therefore, have lower market risk. On the other hand, their overall inflation risk tends to be higher than that of stocks, as their long-term return potential is also lower. Bonds are subject to interest rate risk - when interest rates rise, bond prices typically fall, and when rates decline, bond prices are likely to rise.

**Money market and stable value funds:** While these investments carry very low market risk, historically they have not demonstrated potential to generate long-term returns that exceed the rate of inflation.

If you are over the age of 45, there is a retirement plan that may allow you to put more money away for yourself. It's called the New Comparability Profit-Sharing Plan and its main attraction is that it lets you contribute more on your own behalf as you get older.

The New Comparability plan allows plan participants to be grouped into different classes by age, allowing larger contributions for older groups closer to retirement. At the same time, one may minimize contributions to other groups while still meeting tax law rules. New Comparability plans require extra administrative work to determine annual contributions using a complex mathematical formula that satisfies the IRS non-discrimination requirements. However, with the AIA plan, there's no added work for you because the AIA Members Retirement Program will do all the complicated work for you at a very reasonable cost.

## ***CHANGING FROM TRADITIONAL TO SAFE HARBOR 401(k)***

Components sponsoring traditional 401(k) plans are familiar with the complexities and potential hassles involved. You and your component staff may benefit from changing to a Safe Harbor 401(k).

Traditional 401(k) plans generally require mandated compliance "testing" every year to make sure the plan does not discriminate in favor of highly compensated employees. Testing compares the percentages of salary deferral contributions between "highly compensated employees" (HCEs) and non-highly compensated employees (NHCEs). If a plan fails, it must return some or all of the salary deferrals made by HCEs or the employer may be able to make additional contributions for NHCEs. Not correcting a failed test could mean substantial penalties and possibly even disqualification of the plan's tax-favored status. Hence, the success of a Traditional 401(k) is highly reliant upon the participation level of the non-highly compensated employees and can become cumbersome, frustrating, and time-consuming

**Safe Harbor 401(k) has a dual advantage - the employer can defer more current income and eliminate compliance testing as long as Safe Harbor requirements are met.**

There's no compliance testing with Safe Harbor 401(k) when the employer meets contribution and notice requirements. The employer must agree to make a 100% vested matching contribution of up to 3% of compensation and 50% of the next 2% or a 3% non-elective contribution. The match is made to employees, including the employer, who defer part of their salary. The non-elective is made to all eligible employees regardless of whether they defer part of their salary. Each year the employer must then provide a notice outlining whether they are meeting the contribution requirement with a matching or non-elective contribution. The employer's ability to defer is not restricted by the employee's deferral level. As much as

\$16,500 of income (in 2010) can be deferred and since the plan may be combined with a profit sharing plan, it provides an excellent way to make the most of an employer's retirement savings (subject to IRS plan and participant limits).

Notification about changing to Safe Harbor 401(k) must be given to employees 30 days prior to the beginning of each plan year. Hence, **December 1 is the deadline to make this change (from traditional to safe harbor) for the next plan year.**

An AIA Member Retirement Program Specialist can explain how any plan will work for you and can arrange for you to receive a customized plan proposal at no cost or obligation, by calling **1-800-523-1125 extension 6654.**

### ***A NEW WAY TO SAVE FOR RETIREMENT: ROTH 401(k)***

The tax law changes resulting from the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) included a provision allowing for Roth 401(k) salary deferrals.. When an employer adds the Roth 401(k) option to their plan, participants can defer their after-tax salary (subject to IRS contribution limits) to a Roth 401(k) Salary Deferral account that offers a new way to save for their retirement. And because contributions are paid with post-tax dollars, participants may be able to "hedge their bets" against potential increases in tax brackets and rates.

If the participant satisfies a five-year holding period (from the year deferrals were first made to the Roth 401(k) account or a predecessor Roth 401(k) account) and there is a triggering event (age 59 ½ , death, or disability), the participant will be able to withdraw the money free of federal income tax.

To start, the employer must amend their 401(k) plan to permit Roth salary deferrals. Participants must irrevocably designate the salary deferral as a Roth salary deferral at the time it is made. The employer will treat the amount contributed as the participant's earned income at that time and withhold the applicable taxes. Roth salary deferrals must be kept in a separate account, apart from all other plan contributions. The plan must track the portion of the account attributable to Roth 401(k) salary deferrals.

Roth salary deferrals will be subject to the same overall contribution limit as traditional salary deferrals. The limit for 401(k) participants in 2010 is \$16,500. The limit for SIMPLE 401(k) participants in 2010 is \$11,500. Participants age 50 and over may also contribute \$5,500 (in 2010) to 401(k) and \$2,500 (in 2010) to SIMPLE 401(k) as catch up contributions. Unlike the Roth IRA, there are no income limits and Roth salary deferrals are 100% vested at all times.

Since qualified Roth distributions will not be taxed, assumptions about future tax rates may be key to your decision. No one can predict marginal tax rates in the future; therefore, you should consult a tax advisor first.

## ***HOW MUCH LIFE INSURANCE DO YOU REALLY NEED?***

There are many reasons to buy life insurance. Some are as simple as funeral expenses while others are more complicated dealing with estate settlements and inheritance tax. Figuring this out is easier than you think - it takes less than 15 minutes to determine how much life insurance you really need.

Some common but *misguided* methods to calculate life insurance needs are:

**1. Multiply your annual salary by seven or eight.** While it's a simple formula, it fails to take into account your individual needs and obligations. Life insurance experts say there's a good chance you'll buy too little or too much coverage with such a simplistic formula.

**2. Calculate your value.** This method gives you the income you will earn from your present age until retirement, assuming a reasonable rate of salary increases. The problem is that this formula does not consider your beneficiaries' specific needs. You may end up with a figure that requires you to buy a huge amount of life insurance, possibly more than you really need.

**3. Cover your debts.** This involves buying only enough life insurance to cover debts such as your mortgage, student loan bills, or outstanding car notes. This method does not consider any future debts or needs, such as childcare or college education costs.

### **A MORE RELIABLE METHOD: Five Easy Steps**

***Short-term needs + Long-term needs - Resources = Life Insurance needs.***

This is the most logical method in what is an imprecise science. Analyze your needs every three years or whenever you have a major life change, such as a new baby, new home, or a change in education or child-care costs.

#### **Step 1 - Short Term Needs**

Add up all of your short-term needs into three categories:

1. Final expenses - such as estimated medical, hospital, and funeral expenses, attorney or executor fees, probate court costs (if you do not have a will), and any outstanding taxes that would need to be paid.
2. Outstanding debts - such as credit card balances, auto loans, college loans, and all other outstanding bills.
3. Emergency expenses - for medical emergencies and repairs to your home or car.

#### **Step 2 - Long Term Debts**

Next, add up your long-term debts, which include mortgage balance and college tuition. Calculating an education fund may be tricky if you have no idea where your children will be going to college. Perhaps the best method is to use the present average college cost in the United States (\$20,000 for a private four-year institution) and the number of years away your children are from entering college. To figure out how much it will cost for college for your children, assume college costs inflate by five percent per year. Multiply \$20,000 by 1.05 (for 5 percent inflation) for the number of years until your child would start college. Then multiply the inflated tuition rate times four years of college.

For example, if a child is now 12, it would be about 6 years until s/he attended college:  $\$20,000 \times (1.05)^6$  or  $\$20,000 \times (1.05) \times (1.05) \times (1.05) \times (1.05) \times (1.05) \times (1.05) = \$26,802$ . Then the cost of four years of college at continued inflation ( $\$26,802 \times 1.05$ ) = \$115,520 as the estimated tuition.

### **Step 3 - Family Maintenance Expenses**

These expenses include necessities such as childcare, food, clothing, utility bills, entertainment, travel, and transportation. Calculate this figure based on a year's worth of expenses, then multiply that times the number of years you want to provide this income. Once you've done that, add your short and long-term debts and your family maintenance expenses.

### **Step 4 - Your Current Resources**

It's important to count only liquid assets (those that could be quickly converted to cash) among your resources. Don't count items such as your home or automobile, since selling them would drastically change your family's lifestyle. Add all available savings, stocks, bonds, mutual funds, existing life insurance (such as group life through your employer), and Social Security. Add your present salary and assume 5 percent compounded salary increases if expected.

### **Step 5 - Do The Math**

*Short-term needs + Long-term needs - Resources = Life Insurance needs.*

Subtract your resources (savings, liquid assets) from your total expenses. This figure represents the amount of life insurance you should buy.

The final figure that shows how much life insurance a person needs can be quite alarming. If you end up with an astronomical figure that requires a premium that is too high, go through the analysis again and select areas for which you think you can allocate less money.

### **THE AIA TRUST HAS THE SOLUTION.**

The AIA Trust offers a low cost 10-Year or 20-Year Term Life Plan underwritten by New York Life. Term Insurance is the most economical way to cover the amount of insurance necessary in your calculations above. Standard, Select and Preferred rates by age are listed on the AIA Trust website.

Spouses may apply for up to \$1,000,000 coverage, based on their own age and not to exceed the primary policyholder's amount. Rates remain level for the selected 10 or 20-year period.

For more information about the AIA Level Term Life Plans, call **1-866-768-1075** and ask for the AIA Member Benefits Center.

## ***TERM vs. WHOLE LIFE INSURANCE***

### **Term Life Insurance**

Term insurance is like leasing a car. You purchase death benefits for a specified period --usually 5, 10 or 20 years. When the period is over, it's like turning in the leased car. The deal is done and you walk away. Term insurance pays a specific lump sum to your designated beneficiary if you should die during the term of the policy. The policy protects your family by providing money they can invest to replace your salary, and to cover immediate expenses incurred by your death. Term life insurance is best for young, growing families, whose financial needs are especially high but who often have limited resources to cover those needs.

The premium on a Term policy is low compared to other types of life insurance because it builds no cash value; you pay only for the cost of insurance (COI). The COI is the amount of money the insurance company charges to keep your life insurance policy in force, depending on your age and health at the time you apply for coverage. Under a Yearly Renewable Term policy, the COI is determined at the time you apply and increases at each policy anniversary (as you get older, it becomes more expensive to insure your life). Under a Level Term policy, such as the 10-year level plan offered by the AIA Trust, the COI remains level during initial guaranteed period and then increases.

**Pros:** Affordable coverage that pays only a death benefit, Term Insurance initially costs less than other insurance policies mainly due to the fact that, unlike other policies, it builds no cash value.

**Cons:** Term Insurance premiums increase with age because the risk of death increases as people get older. Some Term Insurance premiums may rise each year (e.g., "Yearly Renewable Term"), or after the initial guarantee period of 5, 10, 15, 20, or more years. Over the age of 65, the cost of Term Insurance becomes very expensive, often unaffordable.

### **Permanent Life Insurance**

Permanent, or "Cash Value," Life Insurance is like buying the car you plan to drive forever. As long as you pay the premiums, permanent insurance stays in force as long as you live. It provides protection for your dependents by paying a death benefit to your designated beneficiary upon your death. In addition, a portion of your premiums are deposited into a tax-deferred cash value account that you can use while you are alive. *Whole Life Insurance, Universal Life Insurance and Variable-Universal Life Insurance* are examples of permanent life insurance.

**Whole Life Insurance** is permanent life insurance protection for your entire life, usually to age 100. A Whole Life policy is contractually guaranteed not to lapse, provided that you pay sufficient premiums each year to keep the policy in force. Besides permanent lifetime insurance protection, Whole Life Insurance features a savings element that allows you to build cash value on a tax-deferred basis. A portion of the premiums you pay build up the savings element of the policy and are invested by the company. The interest rate return on your investment is added to the savings portion of the policy. This is how the policy builds cash value. In addition to crediting your policy with interest, "participating" policies issued by mutual insurance companies may also give you the opportunity to earn dividends. Dividends are a NON-guaranteed return of part of the premium intended to reflect a company's favorable operating experience.

**Pros:** Whole Life Insurance has a savings element (cash value) which grows tax-deferred. If the contract is set up properly in advance, you might build up enough cash value to stop paying premiums by a certain age, or to borrow from the cash value (take a policy loan) during your lifetime on a tax-advantaged basis. Unlike Term Life Insurance, whose premiums eventually rise after the initial guarantee period, Whole Life Insurance premiums will not increase during your lifetime (as long as you pay the planned amount and repay any policy loans).

**Cons:** You are not allowed to choose separate investment accounts, i.e., money market, stock or bond funds; the insurance company controls how and where your premium dollars are invested. Whole Life Insurance offers no premium flexibility or face amount flexibility; the plan you buy today remains fixed for life. It is therefore important to plan carefully, because Whole Life Insurance is not very good at adapting to insurance and/or retirement plans that change significantly.

**Universal Life (UL)**, also called "Flexible Premium Adjustable Life Insurance," entered the life insurance market in the early 1980s as a more flexible version of Whole Life Insurance. Like Whole Life, UL features a savings element that grows on a tax-deferred basis. A portion of your premiums are invested by the insurance company in bonds, mortgages and money market funds. The return on the investments is credited to your policy tax-deferred. A guaranteed minimum interest rate applied to the policy (usually around 4%) means that, no matter how the investments perform, the insurance company guarantees a certain minimum return on your money. If the insurance company does well with its investments, the interest rate return on the accumulated cash value will increase. Universal Life allows you to choose from two death benefit options. Option A pays the death benefit out of the policy's cash value; the more cash value you build up means the company is on the hook for less insurance (and therefore costs less). Option B pays the face amount stated in the contract, plus any cash values you accumulated over the years (costs more). Many UL policies today offer a no-lapse guarantee: as long as you pay the minimum designated premium, the policy will stay in force to age 100 (or even to age 120). However, paying the minimum guaranteed premium is rarely sufficient to build up significant cash values.

**Pros:** Universal Life gives you the flexibility to adjust the death benefit as your needs change, as well as the flexibility to pay smaller or larger premiums - depending on your financial circumstances. This is often an important feature for families who may have fluctuations in their ability to pay.

**Cons:** If your premium payments are too small for too long, the policy could lapse, leaving you without insurance protection. Also, if the insurance company does poorly with its investments, the interest return on the cash portion of the policy will decrease (but never below the minimum interest rate guaranteed in the contract). In this case, cash values will probably fall, forcing you to pay more premium in the later years.

**Variable Life Insurance** is also called Variable Appreciable Life Insurance - provides permanent protection to your beneficiary upon your death. This type of life insurance is "variable" because it allows you to allocate a portion of your premium dollars to a separate account comprised of various investment funds within the insurance company's portfolio, such as an equity fund, a money market fund, a bond fund, or some combination thereof. Hence, the value of the death benefit and the cash value may fluctuate up or down, depending on the performance of the investment portion of the policy. Although most variable life insurance policies guarantee that the death benefit will not fall below a specified minimum, a minimum cash value is seldom guaranteed. Variable is a form of whole life insurance and because of investment risks it is also considered a securities contract and is regulated as securities under the Federal Securities Laws and must be sold with a prospectus.

**Pros:** Allows you to participate in various types of investment options while not being taxed on your earnings (until you surrender the policy). You can apply interest earned on these investments toward the premiums, potentially lowering the amount you pay.

**Cons:** You assume the investment risks. When the investment funds perform poorly, less money is available to pay the premiums, meaning that you may have to pay more than you can afford to keep the policy in force. Poor fund performance also means that the cash and/or death benefit may decline, though never below a defined level. Also, you cannot withdraw from the cash value during your lifetime.

## ***WHAT ARE THE FACTS ABOUT DISABILITY INSURANCE?***

Take a few minutes to consider what you would do if you suddenly became disabled and could no longer work, either at all or in your current profession. Here are some facts:

- Over 60 percent of all bankruptcies in the United States in 2007 were driven by medical incidents and a 2009 survey of bankruptcy filers shows that illnesses and medical bills contribute to a large and increasing share of bankruptcies.
- Disabilities not only occur because of accidents, but illnesses like cancer, heart attack or diabetes cause the majority of long-term disabilities. Back pain, injuries, and arthritis are also significant causes.
- 95 percent of disability claims are not work-related and therefore not covered by workers' compensation.
- According to the Cornell University 2007 Disability Status Report, nearly 37 percent of Americans between the age of 21 and 64 are disabled.
- 2009 Social Security Administration statistics show that a 20 year old worker has a 30 percent chance of becoming disabled before they reach retirement.
- Research from the Council for Disability Awareness (CDA) found that 30 percent of employees will face a long-term disability during their working career
- 30 percent of workers will miss work during their careers as a result of accident or illness with the disability lasting an average of two-and-a-half years.

If these statistics do not make you seriously consider securing appropriate disability insurance coverage to protect your income, then you may be independently wealthy. The AIA Trust is concerned that the average architect or component executive does not have sufficient disability coverage to replace income during a long-term recovery period. The Trust offers a very competitive, inexpensive Long Term Disability Insurance Plan to help members & component execs protect their greatest asset: **their income**. You buy insurance protection for your car, your house, even your jewelry, but frequently insurance to protect your salary falls through the cracks.

**Please consider that, married or single, disability is your most important insurance coverage.** Life insurance becomes important when you have a family to support and to help thrive in your absence. Disability insurance is coverage that you need regardless of your family situation. You need it to survive a disability without losing your home and your other assets. And considering the statistics above, it's a much safer bet to be covered than not.

Briefly, the AIA Trust Long Term Disability Income Plan is offered to AIA members & component executives working at least 20 hours per week and under age 60 who are U.S. or Canadian residents. The plan is portable and therefore not dependent on your location, firm or employer.

Long-term coverage provides monthly disability benefits to at least age 65 and is preferable to short-term policies which only provide benefits for periods of 12 to 60 months. The most commonly purchased plan has a 90-day waiting period and a benefit period extending to age 65. The maximum monthly benefit you may apply for is \$5,000. The plan covers disabilities due to accident or illness in addition to permanent, total and partial disabilities, with variable elimination periods.

In addition, a waiver of premium benefit and a special death benefit are also included. If under age 60 and disabled, future premiums are waived until employment is resumed. If death occurs due to the disability, an amount equal to three times the last monthly benefit is payable.

Your chances of becoming disabled are greater than you think. At age 45, you have a one in five chance of being disabled--with the average disability lasting more than four years, the Society of Actuaries reports. Since the average person under age 55 is disabled for at least four years, how would you support yourself and your family if you were disabled and couldn't work? The simple answer: protect your income with disability insurance. While disabled, you would receive tax-free dollars every month from the insurance company to help replace your current income.

Disability insurance can be complicated, though, with many different types of policies available. For example, the AIA Trust endorses a group disability plan underwritten by New York Life Insurance Company (NYLIC). Other insurance companies may offer individual disability plans. Comparison of the AIA group and individual plans is difficult because of different policy forms. Here are some issues to consider when shopping for disability coverage.

### **How Much Monthly Disability Insurance Is Adequate?**

A simple rule is that the amount of your monthly disability insurance should equal your take-home pay, plus pension contributions normally made each month. If your salary is \$100,000 and the after-taxes net about \$60,000, this equates to \$5,000 a month needed in disability coverage. The monthly insurance benefit should replace your net take-home pay so your current lifestyle does not change. Disability insurance guarantees this income. Companies usually insure an individual for up to 65% of one's annual salary.

Cost is a major difference between group and individual disability plans. Premiums paid for a private, individual plan are level and never change for the life of the policy. The premium is a substantial amount that in essence "overcharges" the policyholder in the earlier years to cover upfront expenses. This "non-cancelable" rate structure, found in most individual plans, sets high fixed rates at inception to collect sufficient premiums to invest over time, which subsidizes the fixed rate as the insured gets older and health risks increase. In addition, expenses such as large commissions to agents, company profit, and taxes make individual plans more costly.

The AIA endorsed group plan offers disability rates that are very low at policy inception, collecting only what's needed to cover modest expenses and the risk of disability associated with the one's current age. The rate then increases every five years as your health risks increase. There are no heavy expense loads, which keeps rates affordable. Rates are not guaranteed and may be increased by the insurance company if loss experience is poor (or may be reduced if the loss experience is favorable).

For example, a 30-year-old member purchasing \$5,000 of monthly benefits (assuming benefits to age 65 and a 90-day waiting period) will pay about \$1,200 per year for an individual plan. Under the AIA endorsed plan and assuming the same benefit options, the member pays \$292 annually until age 35, \$475 at age 40, and so on until age 50 when the premium matures at about \$1,200 per year. In this example, the member pays significantly less for the first 20 years of coverage. This example applies at any age of entry.

### **Gender Differences**

Women pay a higher premium than men under an individual plan than under a group plan. This is because the average frequency of lifetime illness is higher for women and, therefore, statistically their chances of disability are greater. Under the AIA group plan, however, women and men pay the same rate. The AIA Trust website lists the rates depending on age and needs.

### **Total Disability**

The "total disability" definition is a significant consideration when buying disability insurance. It is usually defined as "the insured's inability to work full time at his or her current occupation for which he/she is educated and trained, and must be under a doctor's care." This preferred definition protects the specialty of working as an architect, or as a component executive, and the disabled member cannot be forced to work at any unsuitable occupation.

Some policies indicate that if a member is disabled and unable to work at "his/her own occupation" but capable of working in any occupation after 24 months, then benefits will cease. The preferred "total disability" definition protecting "your own occupation" with no time limits or other restrictions, as in the AIA plan, is the one to consider.

If you voluntarily work at any other occupation other than the position held at time of disability, the private plan will continue to pay full benefits regardless of the other income, whereas the AIA group plan will reduce the amount of the monthly disability benefit proportionate to the loss of income. This is called a "residual disability benefit." The aim of the group plan is to replace the member's lost income due to a disability--not to increase the profitability of the disabled person. The AIA Trust Plan has a voluntary return-to-work provision, so if disabled, the insured is not forced to return to work at any occupation.

### **Guaranteed Renewability**

An individual plan's guarantee that the company can never cancel the policy, as long as the member pays the premium when due, is called "guaranteed renewability." The AIA Trust plan cannot use this term; however, the AIA Trust and not the insurance company controls the reason for any termination. Under the AIA contract, New York Life cannot cancel the members' disability insurance policies under any other scenario. Since the purpose of the AIA Trust is to ensure quality benefits for AIA members, the Trust intends to continue coverage.

There may be other differences between group and individual plans depending on the policy offered. Generally, group policies are less expensive, while individual policies may offer slightly better benefits in some areas. An important issue is whether the company offering coverage is an A-rated carrier that specializes in disability insurance--a strong indicator that the company will be there for you when you are disabled. One thing is for certain: you need disability insurance--whether it's provided by an employer or purchased independently by the member.

The AIA Trust strongly suggests that you review your current and future financial obligations, years to planned retirement, and liquid savings to determine how you and your family would survive financially should a serious disability hit your household. Your greatest asset will always be your ability to earn a living in your profession. Protect that earning ability and your income. The AIA Trust Disability Plan for AIA members & component executives is highly competitive and underwritten by New York Life Insurance Company (A+ rated). Call the AIA Trust Insurance Office **866-768-1075** with questions about disability insurance or to obtain a quote.

## ***OFFER NEW EMPLOYEE BENEFITS***

Finding ways to retain and motivate good employees is a challenge. The AIA Trust offers a number of employee benefits that components may now offer their staff in order to attract and retain the best possible employees. All underwritten by top insurers – at extremely affordable rates.

### **EMPLOYEE LIFE INSURANCE**

One benefits option that every employee needs that is priced right for you as the employer is the AIA Trust ***Employee Term Life Insurance Program***. This plan is available to employees of members and components, as long as the employee is working at least 20 hours per week and has been employed there for three months.

For a maximum benefit level of \$100,000, the plan is reasonably priced. Firms with 10 employees or more have a **special "guarantee" feature**, which allows each employee to enroll with no questions asked about their health history. This applies for policies up to \$50,000 of life insurance as long as the firm pays 100% of the premium for the employees.

For firms with 4 to 9 employees, each employee may contribute up to 75% of the premium each month. This applies if 75% of your employees participate in the plan.

On a voluntary basis, employees of AIA members can apply for benefit limits up to the \$100,000 maximum. In this case, each applicant will be required to go through the normal underwriting procedures.

### **TWO EMPLOYEE LIFE INSURANCE PLANS AVAILABLE**

There are 2 plan options for an employer to consider when setting up this benefit plan:

1. Plan 1 gives each employee a life insurance policy of their annual salary at a maximum benefit level of \$50,000.
2. Plan 2 gives each employee a life insurance policy for twice their annual salary at a maximum benefit level of \$100,000.

Each employee's base salary is rounded to the nearest \$1,000. Each employee may designate their own beneficiary and the policy can be assigned to a bank as collateral for auto, homeowner or personal loans.

The following policies enhancements are included in the price of the basic life insurance coverage:

- **Accidental death and dismemberment coverage.** This substantial benefit doubles the amount of the death claim should the employee be killed in a covered accident. If dismemberment occurs due to the accident, such as loss of a limb or eye sight, up to 100% of the policy benefit may be paid depending on the severity of the injury.
- **Waiver of premium benefit.** Should an employee become totally disabled, the premium for the life insurance will be waived after 6 months of disability and the life insurance will continue at no charge until the employee returns to work full time.
- **Accelerated Death Benefit** allows 50% of the life insurance benefit to be paid while the employee is still living if diagnosed as terminally ill (less than 12 months to live). This benefit gives the employee cash to help settle estate matters and pay medical bills when the money is needed the most.

The AIA Employee Term Life Plan is **underwritten by New York Life Insurance Company**. New York Life has been given the highest ratings possible by A.M. Best (A++) and Standard and Poor's (AAA) for financial strength and claims-paying ability. Valued incentives such as the AIA Employee Term Life Plan can be a significant addition to the employment package at a very reasonable price. Applying for coverage is simple, by calling the AIA Trust Insurance office at **866-768-0884**.

## MORE EMPLOYEE BENEFITS

### ***EMPLOYEE DISABILITY INSURANCE***

The employee disability insurance plan offered by UNUM, one of the best disability insurers in the business, provides your employees with a continuous income stream if a disability keeps them from being able to work by providing them with disability benefits up to 60% of gross monthly income. Long Term Disability Insurance helps make sure you and your employees can pay monthly bills and out-of-pocket medical expenses if a disabling injury or illness keeps one from working for a long period of time.

Each employee is guaranteed acceptance—no medical exams are required. The employer pays an affordable group rate to cover all your employees – at rates that are extremely competitive. In most cases, the coverage is considered a tax deduction if your component pays 100% of the premiums for your employees (please consult your tax advisor for details). For more plan details and to enroll, please call toll-free **866-768-1075**.

### ***EMPLOYEE HEALTH INSURANCE***

The AIA Trust has begun offering a new employee-based health insurance program through Trustmark Life Insurance Company to AIA Members and Components. The Trustmark group health insurance plans offer flexible benefit options to **eligible groups with at least two employees—in participating states**. Trustmark plans are not available in some states due to state insurance regulations; the list of participating states may be found on the AIA Trust website.

Trustmark Life Insurance Company, an A- rated insurance company, has been offering association members healthcare benefits for more than 50 years. They offer flexible plan choices including PPO and consumer-directed plans, as well as options such as health savings accounts and pharmacy benefits. In addition, Trustmark is known for excellent customer service. To learn more, visit the AIA Trust website or **call the Trustmark Sales Office at 800-334-2234** for a quote today.

For components without employees or in states where Trustmark is as yet unavailable, there is a convenient, no-cost, no-obligation service available to help you find reputable, cost-effective health coverage for yourself—as well as for your family. Visit the AIA Trust website to gain access to [Healthinsurance.com](http://Healthinsurance.com) where you can get free online quotes, choose from a large selection of affordable health insurance plans from leading health insurance companies, get live agent support, and apply for health insurance online.

## ***LONG TERM CARE INSURANCE***

According to statistics provided by the Health Insurance Association of America, Wall Street Journal, and Modern Maturity, a typical stay in a nursing facility costs at least \$50,000 per year, lasts an average of 2.5 years, and affects almost one in every two Americans age 65 and older. The U.S. Government Accounting Office estimates that these expenses (including inflation) will triple in the next 20 years.

For many, the solution is long-term care insurance. Most buy it to protect assets and to preserve independence. However, with more than 100 different policies on the market, finding the right one can be difficult and exhausting. The AIA Trust offers a service to give AIA members and component staff the opportunity to shop for long-term care insurance among top providers.

Long Term Care Resources has partnered with the AIA Trust to offer a comprehensive Long Term Care Program – at a special discount on some of the LTC plans available through this program. To obtain more information and quotes, simply visit the Trust website at [www.TheAIATrust.com](http://www.TheAIATrust.com), click on Long Term Care Insurance, and complete a brief form to request information on the LTC Program. You will also receive a LTC planning kit entitled "Risk Management and Long Term Care – Understanding Your Options."

### **What Does Long-Term Care Cover?**

This coverage provides basic benefits for the costs associated with nursing home care and home health care, such as: Nursing facility care, including assisted living; Home nursing care and community-based care; Skilled intermediate and custodial care; Adult day care; Respite care; Hospice care; Homemaker and meal preparation services; and Medical equipment/ in-home safety devices.

Many other options and benefits are also available, allowing you to customize your long-term care insurance plan based on personal needs or financial considerations:

- From \$30 to \$400 in daily benefits
- Benefit periods from one year to lifetime
- Elimination period choices from 0 days to 365 days
- Premium discounts for preferred health status and spouse coverage
- Renewal guaranteed as long as the premium is paid when due
- Portable from state to state
- No exclusions for Alzheimer's disease
- Waiver of premium while in a nursing home

The premium rate is locked in at your age at the time of purchase. The younger the member at the time of purchase, the lower the rate will be for the life of that policy. Most individuals who purchase this product do so before age 65.

## ***TOP 10 LIST OF LONG-TERM CARE POLICY CONSIDERATIONS***

Long-term care insurance is a relatively new type of coverage that transfers the risk of needing expensive, long-term care services to an insurance company. Although there are many things to consider when purchasing a long-term care policy, the following are the ten most important features:

1. **A large, well-rated, experienced insurance company.** The insurer you select should be rated "excellent" by A.M. Best and "strong" by at least two other independent agencies, such as Standard & Poor's or Moody's.
2. **A policy that has reasonable "benefit triggers."** Benefit triggers are the requirements that you must meet before the insurer will pay you benefits. Generally, there are two: the inability to perform basic activities of daily living and cognitive impairment (i.e., memory loss). Avoid plans that require two triggers or that omit bathing. Also, look for a plan that covers both "hands-on" and "stand-by" assistance.
3. **A policy that offers coverage for all types of care.** Today's plans should cover nursing home care, home health care, assisted-living care, alternate care, adult day care, respite care, and hospice care.
4. **A plan that pays sufficient benefits for an adequate period.** Consider the cost of care, and purchase insurance to cover at least 90 percent of that cost. Since the average length of stay is two-and-one-half years, a policy with at least a three-year benefit period is recommended. The policy should pay 100 percent of actual expenses up to the daily maximum selected.
5. **A policy that allows you to choose the doctor or nurse who certifies your eligibility for benefits.**
6. **A policy that offers built-in inflation protection.** This allows your benefits to increase over time while your premiums remain level. Most plans offer either 5 percent of your original amount (called "simple") or 5 percent of the previous year's amount (called "compound").
7. **A policy that waives or stops your premiums in the event you require care.** Many policies will allow you to stop paying premiums once you actually start receiving benefits. Insist on one that waives premiums for all types of care, not merely facility care.
8. **A policy that offers discounts for being married and for being in above average health.** Many insurers offer married couples a discount, usually 10-20 percent for each spouse. If you are in above average health for your age, you could be eligible for a "preferred health discount," which can range anywhere from 10-15 percent.
9. **A monthly maximum policy that covers the cost of homemaker services and home medical equipment and allows for home modifications.** The "monthly maximum" benefits are important because the cost of home care can fluctuate dramatically and this provides more flexibility with your insurance dollars.
10. **A policy that specifically covers Alzheimer's disease, Parkinson's disease, and senility (if diagnosed after you secure the policy); does not require a prior hospital stay; is fully underwritten at the time of application; and is guaranteed renewable.**

## ***HOW MUCH PERSONAL LIABILITY COVERAGE DO YOU NEED?***

If you own a home, you have made a significant investment. Your homeowners insurance helps you protect your home and belongings; however, you may not be aware that it can also help protect you from personal liability claims.

If you or someone you're responsible for causes harm to another person or their property – if your child throws a ball through a neighbor's window, for example – you can be found negligent and held liable for financial damages. You may also be held accountable for harm or damage caused by your pets or an injury if someone slips and falls on your property.

Your homeowners insurance can protect you from catastrophic loss when a person files a lawsuit or a claim against you. Your policy covers the cost of your legal defense and, if you are found to be legally liable, will also pay any damages up to the amount covered by your policy. Homeowners liability coverage applies anywhere – even off your property – if you or a member of your family causes an accident. However, this type of insurance does not apply to automobile accidents or other excluded activities.

While all homeowners insurance policies include a basic amount of personal liability coverage – usually \$100,000 – basic coverage may not be enough. The amount you need depends on your personal situation. We suggest that you purchase liability insurance equal to at least two to three times the value of your assets. Umbrella insurance extends the coverage you have for liability claims against either your homeowners or your automobile insurance.

Call your insurance representative to get a more complete description of liability coverage and determine how to ensure that your liability limit fits your needs.

Liberty Mutual insurance coverage is available to members and component staff of the American Institute of Architects through *Group Savings Plus*® which provides special member discounts on top-quality, affordable insurance through convenient checking account deduction or direct bill at home. For more information or a no-obligation quote on your auto and home insurance, please call **800-281-1329** or go on-line to <http://www.libertymutual.com/lm/aiatrust>.

[www.TheAIATrust.com](http://www.TheAIATrust.com)