AIATrust

FINANCIAL PLANNING GUIDE FOR AIA MEMBERS & COMPONENTS

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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 (refer to https://www.irs.gov/ for additional information). However, with the American Institute of Architects (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 reasonable cost.

CHANGING FROM TRADITIONAL TO SAFE HARBOR 401(k)

Firms and Components sponsoring traditional 401(k) plans are familiar with the complexities and potential hassles involved. Depending on specific needs and circumstances, you and your staff may benefit from changing to a Safe Harbor 401(k).

***Traditional 401(k)* plans** allow individuals to defer a part of their salary over and above contributions the firm may make. Contributions made by employees are on a before-tax basis, and this plan is a good way to have employees share in the cost of saving for retirement. Of course, the IRS sets limits as to how much employees may contribute to a 401(k) plan. Importantly, 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, Traditional 401(k) is highly reliant upon the participation level of the non-highly compensated employees and can become cumbersome. The salary deferral limit for this plan type, subject to discrimination testing, is $18,000 for 2016 (plus a $6,000 age 50+ catch-up contribution).

***SIMPLE 401(k)* plans** allow individuals to defer a part of their salary and the firm is not subject to "discrimination testing" or minimum contribution requirements. The firm must offer eligible employees who defer part of their salary a dollar-for-dollar matching contribution up to 3 percent of compensation or give a 2 percent contribution for all eligible employees regardless of participation. The firm must also provide an annual notice to all eligible employees at least 60 days before the beginning of each year. The notice provides the employees with information on the SIMPLE plan including whether the firm will make the matching or non-elective contribution in the coming year. SIMPLE plans do not allow for any other types of contributions. Although the maximum salary deferral limit is lower in a SIMPLE 401(k) -- $12,500 for 2016 (plus a $3,000 age 50+ catch-up contribution) – the lower contribution cost can be attractive to many firms.

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 employer meets contribution and notice requirements. The firm chooses one of two contribution requirements — either a 3 percent non-elective contribution or a matching contribution based on the following formula, dollar for dollar up to 3 percent of compensation and 50 cents on the next 2 percent of compensation. The firm must also provide an annual notice to all eligible employees at least 30 days, but not more 90 days before the beginning of each year. The notice provides the employees with information on the plan including whether the firm will make the matching or non-elective contribution in the coming year. With a Safe Harbor plan the firm can also contribute to a Profit Sharing plan. The salary deferral limit for this plan type is $18,000 for 2016.

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

***Owner's 401(k)* plans** are for a sole owner with no employees or owners who employ only family members. The impact of increased contribution limits and deduction rule changes allow the owner to employ a 401(k) plan, typically used by larger firms, to drastically increase his or her contribution.

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**.

ANOTHER WAY TO SAVE FOR RETIREMENT: ROTH 401(k)

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 which offers a new way to save for their retirement. In general, the difference between a Roth 401(k) and a traditional 401(k) is that the Roth version is funded with after-tax dollars while the traditional 401(k) is funded with pre-tax dollars. After-tax dollars represent money for which taxes are paid in the current year, and pre-tax dollars are those that do not represent federal taxable income in the current year.

Typically, the earnings on Roth contributions will be tax free as long as the distribution is made at least 5 years after the first Roth contribution and the attainment of age 59 and one half, unless an exception applies. Therefore, a Roth 401(k) plan will probably be most advantageous to younger workers who are currently taxed in a lower tax bracket but expect to be taxed in a higher bracket upon reaching retirement age. However, since no one can predict marginal tax rates in the future, you should consult a tax advisor first.

Under the Roth 401(k), employees can decide to contribute funds on a post-tax elective deferral basis, in addition to, or instead of, pre-tax elective deferrals under their traditional 401(k) plans. An employee's combined elective deferrals to any 401(k) cannot exceed $18,000 (for tax year 2016) if a participant is under 50; if they are over 50, they may contribute an additional $6,000 (for tax year 2016).

For employer matching contributions, the employer is generally required to match each employee's salary reduction contributions on a dollar-for-dollar basis up to 3% of the employee's compensation. For more information on making a lower percentage or non-elective contributions, visit the IRS website here.

Employers are permitted to make matching contributions on employees' designated Roth contributions. However, employers' contributions must be allocated to a pre-tax account, just as matching contributions are on traditional, pre-tax elective contributions.

To start, the employer must amend their 401(k) plan to permit Roth salary deferrals. It is the employer's decision as to whether the company will provide access to the Roth 401(k) in addition to the traditional 401(k). Many employers may feel that the added administrative burden outweighs the benefits of the Roth 401(k).

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. Employees are able to roll their Roth 401(k) contributions over to a Roth IRA account upon termination of employment.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

SIMPLE IRA plans work the same way as the SIMPLE 401(k) plans described above except the contributions are made to employee IRAs. It offers many of the same advantages as a SIMPLE 401(k) with generally lower costs and no annual government filing requirement.

Individual Retirement Accounts (IRAs) are set up by individuals on their own behalf. Individuals are able to make relatively low annual contributions to an IRA. These contributions may not be tax-deductible, depending on income and whether the individual participates in a retirement plan. Earnings on the IRA accumulate on a tax-deferred basis until withdrawal at age 59 1/2 or later. Withdrawals at an earlier age carry a penalty.

Plan details. Regarding IRS and federal pension plan requirements, the IRS has rules relating to "qualified plans," SEPs, Simple IRAs, Roth IRAs and IRAs which direct firms with retirement plans to establish eligibility criteria, vesting schedules, contribution allocation formulas which may include integration with Social Security benefits. These plan requirements often change annually and must be adhered to so it is important to monitor and follow current requirements.

However the retirement plan is designed, the key for firms as well as for individuals is to *start early*. Demographics (increases in the retirement age) and political necessity (taxing benefits for a growing number of people) have already caused major reductions in Social Security benefits. In today's challenging times, it's important to recognize that it pays to contribute as much as you can afford to now, but even lower amounts help you to reach your retirement goals sooner. <u>And if you haven't started a retirement plan yet, make this the year you begin one</u>.

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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 x (1.05)6 or $20,000 x (1.05) x (1.05) x (1.05) x (1.05) x (1.05) x (1.05) = $26,802. Then the cost of four years of college at continued inflation ($26,802 x 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 numerous options for life insurance.

- Group Life Insurance with special, negotiated rates;
- 10-year level term life plans to ensure no premium increases for those periods;
- Firm term life plan to offer you and your employees an important benefit; and now
- Individual high level term life insurance for those looking for coverage over $1MM.

The lower cost 10-Year Term Life Plan underwritten by New York Life Insurance Company offers highly competitive rates. Group plans with New York Life are available up to $1 Million. Term Insurance is the most economical way to cover the amount of insurance necessary in your calculations above – rate charts and an online rate calculator by age, gender, and smoking status and detailed plan information are available 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 a 10-year period. The plan also offers a living benefit or Accelerated "Living" Death Benefits option of up to 50% of your life insurance benefits if qualified. A new domestic partner rider has also been added to the plan.

For more information about the AIA 10-Year Level Term Plan, or the group life or firm term life plans, call **877-801-3727** for the AIA Member Insurance Center.

OFFER A NEW EMPLOYEE BENEFIT

Finding ways to retain and motivate good employees is a challenge. The more expensive items are salary increases, bonuses and medical insurance. But there is an option that every employee needs that is priced right for you as the employer, the AIA Trust's ***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. A rate chart can be viewed here. 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. In most cases, a firm can deduct this coverage as a business expense, provided the firm pays your employees' premiums.

TWO 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 877-801-3727**.

EMPLOYEE HEALTH INSURANCE

If you currently offer health insurance to your staff or if you are considering this benefit as an additional employee benefit, the AIA Trust offers a health insurance exchange, which may be accessed through the AIA Trust web site under 'Healthcare & Health Insurance Options' or by calling **866-708-6579** (7 AM - 7 PM central). You can easily compare various plans, explore subsidy qualifications, and be provided no-obligation information and quotes offered by the top insurance companies in the country. Your employees may be given the option to shop and contribute.

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:

- According Lifehappens.org, half of working Americans couldn't make it a month without their regular income before financial difficulties would set in, and almost one in four would have problems immediately, according to their 2012 survey.

- According to the Bureau of Labor Statistics, in 2014, the unemployment rate of persons with a disability was more than twice the rate for those without a disability.

- According to the Social Security Administration, in the decade 2001-2010, denied disability claims averaged nearly 53 percent.

- Employer disability coverage may not be enough to address your needs, especially if you are the primary household earner. Read more in this AIA Trust article.

- Workers' Compensation only pays if your disability was due to an accident that occurred while you were working—but according to the National Safety Council (Injury Facts, 2011 Edition), more than 73% of disabling accidents and illnesses aren't work-related and nonfatal injuries affect millions of Americans.

- 82% of people surveyed have no long term disability insurance or severely inadequate coverage. *(American Council of Life Insurers)*

- 40% of those aged 45 and older will have a disability lasting longer than 90 days during their career.

- Most common causes of disability are:

  18.2% Back injuries
  12.7% Emotional/psychiatric
  11.3% Neurological
  9.0% Extremities
  4.1% Cardiovascular

These statistics should make you seriously consider securing appropriate disability insurance coverage to protect your income. 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 AIA Trust offers a very competitive 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 30 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 $6,000.

The plan covers disabilities due to accident or illness in addition to permanent, total and partial disabilities, with variable elimination periods. 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.

In addition, the AIA Trust Firm Group Long Term Disability Insurance Plan provides financial protection for employees up to $6,000 per month, based on the amount they were earning before their disability began. Eligible employees must be working at least 25 hours per week to qualify for this employee benefit.

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 with many different types of policies available. For example, the AIA Trust offers a group disability plan underwritten by New York Life Insurance Company (NYLIC) and an employee disability plan underwritten by UNUM, for two or more employees. Many other insurance companies 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 60% 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's 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's 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. Rates will vary based on age, waiting period, and length of coverage which can be for two years or until age 65.

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 guarantees 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). The AIA Trust Insurance Office, **877-801-3727**, can answer questions about disability insurance or provide a personal quote.

EMPLOYEE DISABILITY INSURANCE

According to the Social Security Administration, one in four workers will suffer a long-term disability before they reach retirement. With this risk, many workers are looking for disability insurance as part of their employee benefits package. Therefore, if you offer Long Term Disability Insurance coverage as part of your firm’s employee benefits package, you can help recruit and retain your good employees, while staying competitive in today’s marketplace. Long Term Disability Insurance helps make sure you and your employees can pay their monthly bills and out-of-pocket medical expenses if a disabling injury or illness keeps you or an employee from working for a long period of time.

The AIA Trust has now made it possible for members to choose between two insurance carriers for the Group Firm Long Term Disability Plan. We've partnered with Principal Financial Group and Unum, both offer excellent coverage that provides rationale to add or switch to one of these plans for your employee benefit package. The plans offer extremely competitive group rates, the highest level of customer service, and a wide variety of options available to firms. In fact, many AIA members' firms who already switched to either of these plans found the cost to be extremely competitive.

Unum was ranked first in disability benefits for 32 consecutive years and presently insures more than 3,000 architect firms. Features of this plan include 60% income replacement, coverage until age 65, two year own occupation definition with residual and your choice of elimination periods. Disability payments may be reduced by deductible sources and disability earnings. There must be at least two eligible employees who are working at least 25 hours per week to qualify for this employee benefit.

Principal Financial Group is one of the nation's largest disability carriers. They offer flexible benefits that allow you, the employer, to have your choice of elimination period, have a benefit duration of up to age 65, benefit percentage of up to 60%, maximum weekly benefit of up to $6,000, and a variety of choices for the firm to choose from to be Own Occupation Specific. There must be at least three eligible employees working at least 30 hours a week to qualify for this benefit.

To request a custom proposal for your firm's disability options or for more information contact HBI at 877-801-3727 or go online to learn more about employee disability coverage.

LONG -TERM CARE INSURANCE

According to the *Genworth 2015 Cost of Care Survey* at least 70% of people over the age of 65 will require some form of long term care services and support during their lives. According to the Social Security Administration, Medicare does not pay for long-term care services. The average annual cost for a private room in a nursing home exceeded $90,000 in 2015 and even an assisted living facility now costs more than $43,000 per year on average. With the average length of a nursing home stay at 835 days, more than two years, according to the Centers for Disease Control and Prevention 2014 statistics, and those with Alzheimer's generally having stays of five years or longer, this expense could bankrupt most households.

For most, the solution is long-term care insurance to protect assets and to preserve independence. However, with hundreds of policies on the market, finding the right one can be difficult and exhausting. The AIA Trust now offers a service that gives AIA members and component staff the ability to shop more easily for long-term care insurance. This program is provided by a company called Long Term Care Resources (LTCR), a buying service for long-term care coverage.

Once you contact LTCR via the Internet or phone, you will receive a customized planning kit entitled "Risk Management and Long Term Care – Understanding Your Options", also available through the AIA Trust website. Your booklet includes case studies, cost information, planning mistakes and program advantages at no cost to you. You may work with LTCR representatives to choose a company and product that suits you best from the many top-rated companies with which they work, all committed to the long-term care industry.

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:

- Choice of Insurance Carrier
- Daily/Monthly and Lifetime Maximum
- Benefit periods from one year to lifetime
- Elimination Period (similar to a deductible, the number of days before benefits are paid from 0 to 365)
- Inflation Protection
- Renewal guaranteed as long as the premium is paid when due
- Age at Application with premiums based on age at time of application
- Premium discounts for preferred health status and spouse/partner coverage
- Portability from state to state
- No exclusions for Alzheimer's disease
- Waiver of premium while in a nursing home

How to Use This Service

Call LTCR at 800-616-8759 to request a planning kit, or visit the AIA Trust's Web site at www.TheAIATrust.com and click under the products listing on "Long-Term Care." Identify yourself as an AIA member or component and discuss your needs and options with a long term care specialist.

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 homeowner 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. It is suggested 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 – or visit their website.

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.**

The AIA Trust serves as a *free risk management resource* for AIA members. The AIA Trust is dedicated to providing helpful information to members to manage their firms successfully, continuously updating website resources for members, www.TheAIATrust.com. (Please note that this is a *separate* web site from the AIA.org web site.)

Under the "Practice Resources" button located at the top of the home page is listed a host of member & firm resources and tools including risk management articles, white papers, seminars & webinars, and the professional liability insurer database – all available free of charge to assist members in their architectural practices.

The "Component Resources" page on the AIA Trust web site provides information on component programs offered by the AIA Trust such as grant and seminar opportunities, component insurance information, and benefit programs for component staff. Most AIA Trust benefit programs are available to AIA Component staff.

The purpose of the AIA Trust is to develop and make available at the greatest possible value, insurance and benefit programs for AIA members and components and to serve as a risk management resource. AIA Trust goals are clearly defined to:

1. Identify & address current and future member and component needs for risk management programs and benefits.
2. Provide risk management tools to enhance members' architecture practice.
3. Serve as the indispensable insurance and benefits resource for AIA members and components.
4. Be recognized as a valuable risk management resource and benefits provider within the Institute.
5. Remain financially stable.

For more than 60 years, the AIA Trust has developed and offered insurance and benefit programs of the greatest possible value to AIA members and components. The AIA Trust also serves as a member-advocate in providing members with information about their benefit programs, assisting members in making decisions about complex matters, and ensuring their claims are handled properly and promptly.

Six AIA members and one CACE representative serve as Trustees, appointed by the AIA President. They work with independent experts who advise on insurance, legal, and financial matters to enable the Trustees to make the best decisions possible, working together with AIA Trust staff to evaluate, select, and monitor programs that meet the Institute's high standards of quality, value, financial stability, service, and coverage. The AIA Trust is self-funded and does not use any member dues dollars.

For more information on AIA Trust programs, visit the website or call 202-626-7376 directly.

theAIATrust.com