TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

November 2023

Tenon Financial Happenings
- We're open for business (again)

Retirement Planning Happenings
- Is life insurance necessary in retirement?

Tenon Financial Happenings

Tenon Financial is taking on new relationships

If anyone is interested in potentially working with Tenon Financial, I'm happy to let you know that Michelle is again taking on new relationships.

When Michelle started back in March and we announced she was setting up introductory calls with prospective clients, we received a lot more interest than originally anticipated…thank you! But, as a result, we soon after had to stop taking additional names.

However, we've since gotten through reaching out to, having intro calls with and/or moving forward with everyone who originally contacted us.

With that said, Tenon Financial and Michelle are again "open for business" for new relationships!

If you'd like to learn more about what Tenon Financial does, what it costs and who would be best served by our service, we encourage you to check out the **Services & Fees** section of our website.

But to quickly summarize our service: we provide ongoing tax-efficient/tax-focused retirement planning and investment management to people who are in or near retirement (i.e. typically within a year or two of retiring).

We unfortunately do not offer hourly or other limited engagement services such as the creation of a one-time financial plan.

We only offer an ongoing service that includes detailed distribution, income and tax planning. Additionally, the service involves management of investable assets, where investment accounts are opened and held in custody at Charles Schwab.

For the service, we charge a flat annual fee that's typically $9,600 per year for single folks, or $10,800 per year for married couples.

While we don't have a formal minimum requirement for investable asset size, our level of fee is such that our service most likely isn't cost effective if a person's investable asset size isn't at least $1 million. Additionally, we generally don't work with folks whose net worth is in excess of $10 million.

If you have interest in setting up an introductory call with Michelle to see if a relationship with her and Tenon Financial could make sense, please reach out via email at **hello@tenonfinancial.com**

Or, if Tenon Financial isn't the right fit for you but you're still interested in finding a retirement-focused advisor who offers ongoing planning and investment management for a flat annual fee, check out the **Advisor Referrals** list on our website.

As always, thank you for your support and consideration!

Have a happy Thanksgiving and we'll see you again in December.

-Andy

Retirement Planning Happenings

Do you need to have life insurance in retirement?

Life insurance is a valuable and often necessary product. But is it necessary for people in retirement to have life insurance??? Like most questions in financial planning, the best answer is, "it depends."

In my opinion, most people in retirement (at least most people we work with or have talked with) objectively don't NEED life insurance. But there will nonetheless be times where people in retirement DO need life insurance.

Regardless of your stage of life, the main question to ask yourself to help determine if you need life insurance is, "if I were to die, would my loved ones be in financial distress as a result?" If the answer is yes, you need life insurance. If the answer is no, you likely don't.

In your younger years, there are typically easy to spot and easy to measure needs for life insurance. But those same needs generally cease to exist by the time you're retired.

For example, assume you're 40 years old, married, the primary breadwinner and have young children. Further assume you own a home with a mortgage against it. Also assume your spouse's income alone isn't enough to support the household. And additionally assume one of your main goals is to pay for your kids' college educations.

If you were to die tomorrow, your earnings would stop. This would mean your surviving spouse would struggle to pay for day-to-day living due to the reduced household income. That also means your spouse likely won't be able to save much (if any?) for your kids' college.

In this scenario, you clearly need life insurance. As for how much you need, that depends. A good starting point is to have enough to 1) pay off the mortgage, 2) give your surviving spouse enough cash to supplement his or her income for a certain number of years (i.e. however many it would take to get to a point where the additional income would no longer be necessary) and 3) set aside enough money to eventually pay for college.

Now, instead assume you're 65 years old. Also assume you and your spouse have since retired, so wages already stopped. Additionally, assume you already paid off your mortgage and your children have since finished college and are now financially independent. You've also saved up a large nest egg during your working years.

Now ask yourself the question, "if I were to die, would my loved ones be in financial distress as a result?"

Your answer to this at 65 years old and retired is probably very different than it would have been at 40 years old and working. Your wages already stopped and therefore don't necessarily need to be replaced, the mortgage is already paid off, college is already paid for and behind you, you and/or your spouse may have already started Social Security, pensions or annuities, and your nest egg is large enough to supplement your additional income needs.

The above scenario is fairly common for many folks. And for such people, no, you likely don't NEED life insurance in retirement.

However, there are other scenarios in which having life insurance in retirement is the right solution for the needs and goals at hand. Some examples are:

- One of your goals is to maximize how much you leave to your heirs upon your passing, especially on a tax-free basis (since the death benefits paid by life insurance are generally free from income tax)
- Your assets and/or estate will not have enough liquid assets (i.e. cash or other things that can be turned into cash) to pay for your final expenses and other estate administration expenses. For example, maybe the vast majority of your net worth is tied up in a business you own. While you may be quite wealthy on paper, you may not have many liquid assets. The death benefit from life insurance can provide a source of liquidity for your estate
- You have a special needs child and want to ensure a certain amount of money is left for him or her to help pay for their ongoing care after you're gone

Once you determine you need life insurance in retirement, the next decision is to figure out how much you need and what type would best suit your needs.

There are two general types of life insurance: term and permanent:

Term life insurance provides coverage that only lasts for a specific period of time; typically 10-30 years.

The cost or premium payments for term insurance are normally fixed throughout the life of the policy.

For example, assume you buy a 20-year term policy that has $1,000,000 of death benefit. Further assume the required premium for the policy is $1,000 per year. So long as you continue paying the $1,000 in annual premiums on time every year you're alive, the insurance company will pay your beneficiary(ies) $1,000,000 if you die any time during those 20 years.

Conversely, if you don't die within those 20 years (and don't otherwise extend or convert your policy to other coverage), the policy simply expires after 20 years. You no longer have to continue paying the annual premium payments after the policy ends, but you also have no sort of residual value.

Whereas term life insurance only lasts for a specific length of time, Permanent life insurance lasts permanently...for the rest of your life. Though it should be noted that the word "permanent" is a bit of a misnomer as permanent policies generally have a maturity date. If the insured is still alive as of the maturity date, the policy is typically then involuntarily surrendered by the insurance company. Older permanent policies commonly mature if/when the insured reaches age 90 or 95. Newer permanent policies generally mature if/when the insured reaches age 120.

In addition to providing life insurance for a longer period of time than term policies, permanent policies also have a cash value accumulation feature whereas term policies do not. For every premium payment you make, some of the payment goes to pay for the cost of the insurance and other policy fees. The remainder of the payment goes into a “cash value” account that can earn interest.

While you’re alive, you can take some or all of the cash out of the cash value (though keep in mind that may reduce or completely eliminate your death benefit, depending how much cash you withdraw). Alternatively, you can take out loans from the insurance company where they will use the cash value of your policy as collateral for the loan.

The other big difference between term and permanent life insurance is cost. All else equal, the premium payments for a given amount of death benefit will be lower for term than for permanent. That’s simply because a term policy is likely to not payout, assuming you live long enough, whereas permanent policies WILL eventually pay out.

Within the category of permanent life insurance, there are two main sub-categories or types of policies; Whole Life and Universal Life (there is also Variable Life, but it's less common than Whole Life or Universal Life, so I'm excluding it here). And within the category of Universal Life, there are a few sub-sub-categories.

The specifics of Whole Life vs the different flavors of Universal Life are quite detailed and beyond the scope of this article. But I wanted to nonetheless mention them here to make you aware of them.

So, do YOU need life insurance during retirement??? You’ll likely get different answers from different people. None of the answers are necessarily wrong. The best place to start is to do your own independent analysis and see what answer you come up with. And start by asking yourself, “if I were to die, would my loved ones be in financial distress as a result?”

Disclaimer:

None of the information provided herein is intended as investment, tax, accounting or legal advice, as an offer or solicitation of an offer to buy or sell, or as an endorsement, of any company, security, fund, or other securities or non-securities offering. The information should not be relied upon for purposes of transacting securities or other investments. Your use of the information is at your sole risk. The content is provided ‘as is’ and without warranties, either expressed or implied. Tenon Financial LLC does not promise or guarantee any income or particular result from your use of the information contained herein. Under no circumstances will Tenon Financial LLC be liable for any loss or damage caused by your reliance on the information contained herein. It is your responsibility to evaluate any information, opinion, or other content contained.