Creative
wealth maximization strategies*

MARCH 2015

THE *SYNERGY* OF WEALTH AND HEALTH

There is a long-recognized connection between wealth and health. thy people are healthier than the general population and healthy le are wealthier. These observations have been verified by multiple es across every first-world demographic, whether in Europe, Asia or America.

ut while there is a clear ***correlation*** between health and wealth, it is ertain if the two conditions are ***causative*** – in either direction. Does h lead to health? Does health lead to wealth? Or do these two itions arise from different catalysts?

Status or Habits? Read the Tabloids.

lany of the studies on the connection between wealth and health rm a "mutualistic" relationship between the two - each condition fits from the growth or success of the other. Individuals who maintain health are more productive. Increased productivity results in higher ngs, providing the time and resources to live a healthier lifestyle – r nutrition, more exercise, less career stress, and higher-quality cal care. Broadly, over time, the rich not only get richer, but stay healthier.

In observing this connection, some social researchers have concluded that wealth (frequently termed "socioeconomic status") is the prime actor in this relationship. Cited in an October 2001 article published by the American Psychological Association, Norman Anderson, a Harvard professor of health and social behavior, proclaimed: "As you move up the socioeconomic status hierarchy, your health prospects continue to improve. One of the greatest advances of the last few years has been that socioeconomic status is now viewed as a determinant of health rather than a mere correlate." If Anderson's assessment is correct, simply making people wealthier will improve their long-term physical well-being.

It's an interesting theory, except it might be wrong. Supermarket tabloids aren't usually a reliable source of financial information or social research, but just about every front-page headline features the tragedy of some talented and extremely well-paid celebrity either losing their fortune or destroying their health. It's possible that serious social researchers don't read the tabloids, but the frequency with which these stories appear at least calls into question the idea that socioeconomic status is a determinant for good health. Some other factors must also figure in the equation.

Empirical observations (and some research studies) indicate **the ability to maintain a disciplined approach to one's finances and physical condition is a critical element in long-term success.** Good habits are conducive to both wealth and health. When both one's finances and health are under control, it creates the conditions for mutualistic growth.

Saving and Exercise: One Strengthens the Other

A 2004 University of Wisconsin research paper titled "An Empirical Investigation of the Relationship between Wealth and Health Using the Survey of Consumer Finances" made a distinction between "income" and "wealth." Income was earnings from employment while wealth was accumulated financial assets, i.e., savings. The researchers concluded that a connection between income and health tended to diminish over time, while accumulated assets had a greater positive impact on health. This is because…

"Savings may provide crucial resources when an individual is struck by an unexpected health shock. For individuals with little disposable income, lack of wealth may limit the ability to purchase potentially effective care, lead to delays in seeking care, or place them in other situations with additional health risks. This would be particularly relevant for the working-aged population who are still accumulating wealth."

In This Issue…

A 2014 survey by marketing and research firm Porter Novelli found "Financial confidence relieves stress. Adults who said they were confident in their retirement savings are also less likely to say their life is stressful."

Likewise, the financial benefit of good physical habits should not be underestimated. Sustaining a regimen of good nutrition, exercise and rest not only maintains or improves health, it allows for a longer and better working life. It can also dramatically reduce one's cost of living by decreasing medical expenses, particularly in retirement. The magnitude of these potential savings is enormous.

A May 2014 *Fact Sheet* published on the Centers for Disease Control website (cdc.gov), provided the following statistics:

– As of 2012, about half of all adults—117 million people—have one or more chronic health conditions. One of four adults has two or more chronic health conditions.
– 84 percent of all health care spending in 2006 was for the 50% of the population who have one or more chronic medical conditions.

Steve Vernon, the author of the book, *Live Long and Prosper*, believes the best way to pay for medical costs is to ***maintain or adopt a healthy lifestyle now***. Echoing the findings of the government studies, Vernon says "A lifetime of bad habits will result in higher medical costs." He estimates that pre-retirees and retirees "can reduce the odds of having high medical costs in retirement, and especially those associated with long-term care, such as nursing homes, by 75% simply by eating right, exercising and reducing stress."

The Novelli report uncovered a nugget that captures the mutualistic relationship between disciplined saving and living:

Adults who are confident in their retirement savings are more likely to say they are in great health and more likely to participate in moderate to vigorous physical activity four or more times per week.

Are these adults financially confident because they exercise? Are they in great shape because they have retirement savings? No. The two activities complement each other, but they both originate from a commitment to disciplined living – financially and physically.

Integrating Wealth and Health

Success in both areas comes from the same habits of self-discipline and persistence. You save and exercise regularly according to a plan. You avoid risky investments and destructive behaviors. You maintain reserves and get enough rest. And when you have good habits in both aspects of your life, there is a synergy that creates a spillover between these two items that maximizes both financial and physical benefits. Conversely, a lack of discipline in one area can be a drag on the other.

Awareness of the wealth-and-health connection to good habits can be motivation for self-assessment. Many of us may be a bit out of balance – we have better financial habits than health habits, or vice versa. Knowing neglect in one area often directly impacts the other is reason to change or improve personal habits. And knowing we have demonstrated discipline in one area should make us hopeful that we can be successful in applying the necessary discipline in another.

But wealth and health are usually compartmentalized; they are separate industries, with their own publications, media outlets, and gurus; nobody asks Jillian for financial advance and Jim Cramer doesn't have a 6-week program to lose weight. So readers won't find diet plans or exercise programs in this publication, but it can prompt questions like these:

- Do your financial decisions improve your physical well-being or produce additional stress? Risk tolerance is not only a matter of how much money you're willing to lose, but also the emotional distress that might result from such a possibility.
- Can your current finances withstand a health shock? In the event of an accident or disabling illness, you'll need the resources to recover your health and maintain your financial objectives.
- Do your wealth aspirations include specific lifestyle objectives? Some financial service providers make a big deal about finding "your number" for retirement, college funding, etc. But wealth isn't just a number. It's what type of life you can live because of the number.

The next time you meet with one of your financial professionals, think about informing them about your health as well, and how you want your wealth and health to be connected. It's a good habit to establish. ❖

Etymology is the study of the origin of words and the way in which their meanings have changed throughout history. For instance, in the Middle Ages the original meaning of the word "mortgage" was "death pledge" (which might give homeownership a different feel, especially if you're someone who has a "30-year fixed death pledge").

Another example from the financial lexicon is "term." A term can be:

- a fixed period, i.e., "this Certificate of Deposit has a 3-year term."
- a word or expression that has a precise meaning. A contract might say "The term 'beneficiary' is used to identify the person who receives payments."
- used as a plural for provisions that determine the nature and scope of an agreement, as in the terms of a purchase contract.

These three somewhat disparate definitions are connected by the original Latin word *termon*, which means "the end," or "boundary." In some way, each of the usages defined above relates to those two concepts – an end or a boundary.

This might be a bit of etymological trivia, but it also gives insight to the function of term life insurance. True to its original meaning, term life insurance is a financial product designed with boundaries, or limits.

Yearly Renewable Term: The Cost Basis for All Life Insurance

While death is a certainty for everyone and could happen to anyone in a particular year, the frequency with which it occurs among a large number of people follows a predicable pattern. All other factors (such as health, gender, occupation) being equal, the likelihood of dying increases with age.

Life insurance actuaries are tasked with accurately pricing policies to ensure the company can deliver the promised benefits and that policyowners pay in proportion to their risk of dying. These objectives are accomplished by defining the terms (boundaries) of coverage, and adjusting the price accordingly. In the simplest form, the cost of life insurance is recalculated annually according to one's age. This version of life insurance, known as yearly renewable term (YRT), results in lower premiums for younger insureds, with the price of protection increasing on an ever-steepening arc as one gets older.

Figure 1 shows a 40-year schedule of annual premiums for a $500,000 yearly renewable term life insurance policy on a 45-year-old, healthy, male, non-tobacco user offered by a highly-rated US life insurance company. Fig. 2 gives a visual representation of this premium schedule, and while the numbers are specific to this particular example, the curve reflects the fundamental price structure in all types of life insurance policies: the cost of insurance increases with age.

Yearly Renewable Term Premiums **FIG. 1**
(age 45 Male, Non-Tobacco User)

YR	ANNUAL PREMIUM	YR	ANNUAL PREMIUM
1	$635	21	$3,780
2	680	22	4,220
3	725	23	4,690
4	770	24	5,215
5	815	25	5,815
6	860	26	6,440
7	905	27	7,250
8	950	28	8,165
9	1,050	29	9,195
10	1,150	30	10,355
11	1,260	31	11,650
12	1,420	32	13,130
13	1,630	33	14,785
14	1,840	34	16,650
15	2,050	35	18,750
16	2,275	36	21,130
17	2,505	37	23,600
18	2,760	38	26,155
19	3,050	39	28,895
20	3,395	40	31,920

The Dilemma of Term: When Does It End?

One look at the cost-of-insurance curve reveals a dilemma: At age 45, $635 for $500,000 of protection seems like a good value. But the $3,780 annual premium at age 65 is almost six times more than the first-year premium for the same benefit. And, in the 40th year, it is $31,920; that's over 50 times the first premium.

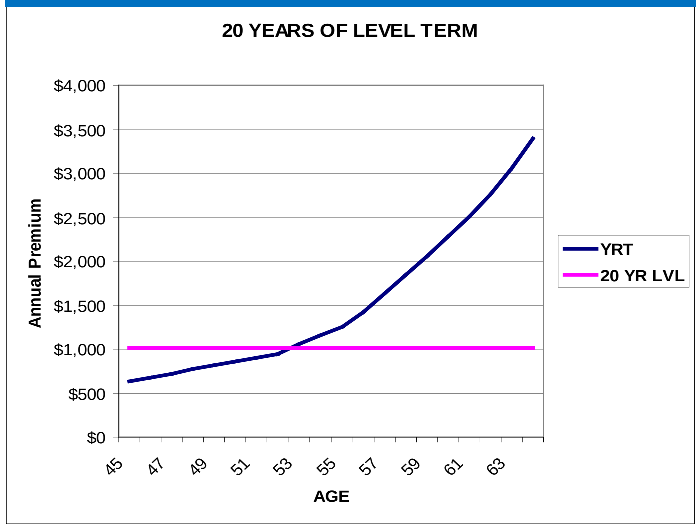
The statistical reality of ever-increasing premiums will, at some point, force many policyowners to conclude that "the price of protection is too high". Even though the probability of dying in the next year is much greater than when they initiated the policy, the economics of their particular circumstances will compel them to ***terminate*** their coverage.

When will this point of termination occur? And how will the loss of a life insurance benefit affect the stability of one's financial program? What if there is still a need or desire for life insurance? Effective financial planning attempts to provide a greater measure of economic certainty, but the YRT approach is very much a fluid, year-to-year format.

The Level Term Solution?

A practical response to the YRT cost curve, both financially and psychologically, is to impose a level premium schedule for a specified time, such as 10, 15, or 20 years. This requires the policyowner to overpay the actual cost of insurance early in the term while underpaying later. A 20-year level term policy for $500,000 for the 45-year-old male in the YRT example is $1,010 a year – for the next 20 years. For 8 years, the owner of the 20-year term policy would be overpaying the "real" annual cost of insurance, but underpaying for the next 12 (see Fig 2).

FIG. 2



Level term for a specified period accomplishes two things: It fixes the cost of insurance for the period, and results in lower cumulative premiums compared to YRT for the same time. But while level term solves some pricing and certainty challenges for 20 years, there's still the question: What happens at the end of the term? It depends.

- Some policies simply end. No further premiums will be accepted and the coverage ends.
- The policy may permit the coverage to continue, but at YRT rates, which puts the policyowner back in the cost curve dilemma.
- It may be possible to secure a new level term policy based on one's current health. But insurance companies restrict this option, either by limiting the application age (under 65 or 70), or the length of the level premium schedule (must end at age 80 or 85).

All of these options still lead to the same end - uncertainty as to whether your financial boundaries will match those imposed by the term insurance cost curve.

Saving to "Replace" Term?

A companion strategy recommended by some financial experts is to purposefully accumulate assets during the level term period to "replace" the life insurance benefit. In the example of the 45-year-old male, this means accumulating $500,000 of additional assets during the 20-year term period. How much additional saving would this require? It depends on the return assumptions used.

If the savings could generate an average annual return of 10%, $8,000 each year for 20 years would grow to $504,020. Added to the 20-year level premium of $1,010, over $9,000/yr. is required to alleviate the risk of term ending before you want it to.

Is earning 10% annually for 20 years realistic? Maybe, but it probably involves investment risk and volatility. If this account is intended to replace an insurance benefit, perhaps a more conservative assumption should be used – which means increasing the annual savings requirement. At 6%, it takes $13,000/yr. to accumulate $506,000 in 20 years – plus the additional $1,010 each year for life insurance.

This is a simple scenario of saving to "self-insure." Complex models calculating reduced amounts of YRT as the accumulation grows and different return variables could result in lower saving requirements. But using this approach to respond to term life insurance ending before you want it to imposes a lot of responsibility on the individual in both financial resources and time. And any period of poor health, an accident, or employment disruption during the term could undo this strategy.

Designing a "Lifetime Term" Insurance Plan

Consequently, some consider life insurance a necessary "lost" cost. Individuals with dependents and limited assets need the immediate financial protection term insurance provides in the event of an untimely death. You keep the coverage until it is no longer affordable or necessary, and then let it go.

But there are individuals with legitimate reasons to have an insurance benefit in place until they die, whenever that might occur. How does one construct a "lifetime" term insurance program?

The simplest is buying whole life insurance, a level premium policy with a term guaranteed for however long one might live. Just like shorter level term policies, this means overpaying at the beginning and underpaying in later years of the policy. But whole life is more than a lifetime level term policy. Because the premiums are higher and will be paid for a longer time, the insurance company credits the policyowner with equity in the insurance benefit in the form of cash values, some of which are guaranteed and some not, such as company dividends.* Cash values can be accessed, if needed, before death as withdrawals and/or loans.**

In the case of the 45-year-old with $500,000, the annual level premium for a whole life policy from the same insurance company is $10,010. This is 10 times the 20-year level term premium, but also less than the $14,000 that would have been required to conservatively "replace" the term policy with savings.

This is not a perfect apples-to-apples comparison, and whole life is not the only way to construct a life insurance program that provides lifetime protection. But the whole life policyowners have guaranteed options to maintain the insurance benefit as long as it is needed, and that's important. **Ideally, the boundaries and end of the life insurance coverage should be controlled by the policyowner, not the relentless cost curve of annual insurance costs.**

A sports cliché says "It's not how you start, but how you finish." Is your life insurance program designed to end on your terms? ❖

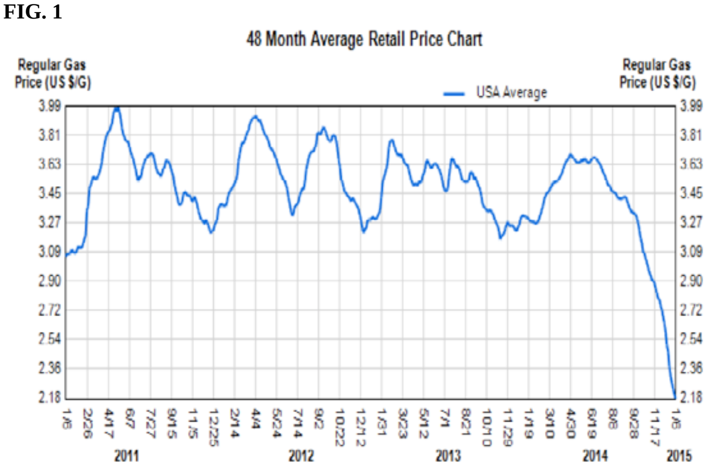
*Dividends are not guaranteed and are declared annually by the company's board of directors.
**Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

Gasoline Prices: Down

(But Not "Really")

From June 2014 to January 2015, the national average price for a gallon of gasoline in the U.S. dropped almost 40%, from $3.60/gal. to $2.20/gal., with many locations reporting prices below $2.00/gal. After four years of prices bouncing between $3.00/gal. and $3.60/gal., the 7-month slide was a dramatic and positive change for American consumers. (See Fig. 1)

FIG. 1



Graph from the Foundation for Economic Education, "All Hail the Tumbling Price of Gas" (fee.org, Jan. 13, 2015)

The savings from these lower fuel costs vary by household. But Christopher Knittel, a professor of energy economics at MIT, told the *Wall Street Journal* in a January 2, 2015, article that a dollar per gallon decrease in gasoline prices equates to about $50 each month in lower gasoline costs for the typical American family unit – or, if prices remain low, about $600 a year.

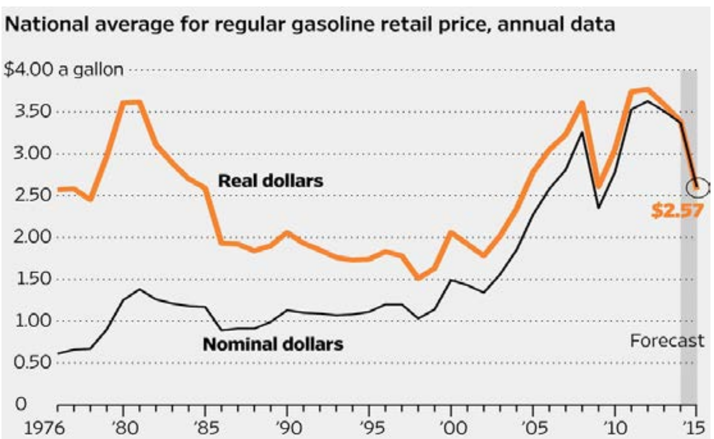
Fifty dollars a month doesn't seem like much, but it apparently was enough to trigger an increase in the purchase of automobiles with greater fuel consumption. Writing for fastmarkets.com on November 3, 2014, Tom Jennemann noted robust auto sales for October and concluded "Significantly lower gas prices coaxed prospective buyers…to look at larger vehicles such as SUVs and crossovers." The next day, a US Toyota division manager echoed this assessment to David Phillips in Rubbernews.com, another industry blog, saying "An improving economy and lower gas prices drove strong SUV sales."

Even if somewhat unexpected, a decline in prices is usually good news. But whether consumers should make large, long-term financial decisions (like buying a new car) based on this information is debatable.

Is Gas Really Cheaper?

Short-term, gasoline is definitely cheaper. A longer-term view suggests otherwise, especially when the prices are adjusted for inflation. Using US Energy Administration data, Jo Craven McGinty presented a 40-year history of US gas prices in the same WSJ article. (See Fig. 2) The graph showed both the nominal price and the "real" price, i.e., what a 1976 gallon of gas would cost today.

FIG. 2



Over longer periods, inflation skews financial reality. The "real" price of gas in the late 1970s and early 1980s was as high as in 2013, while the 17-year stretch from 1986 to 2003 had the lowest real prices; adjusted for inflation, the national annual average never exceeded $2.06/gal., and dropped to a low of $1.51 in 1998. So while last year's drop reflects a significant decrease, the longer "real" numbers show the price of gasoline is still well *above its 40-year average.*

Are Lower Gas Prices a Long-Term Trend?

Economists attributed the decline in gas prices to several factors, including improved extraction technologies, slowing foreign economies, and the decision of some producers to continue pumping even at lower profit margins. The resulting excess supply has been a catalyst for lower prices, but many experts believe the trend will not last.

President Obama isn't an economist, but in a January 6, 2015, interview with the *Detroit News*, he cautioned Americans against thinking prices would stay low, citing an anticipated rebound in overseas demand from countries like China and India. McGinty concurs, saying another 17-year run of low prices seems unlikely.

And a free market adage says "The cure for low prices is low prices." Low prices compel oil producers and refiners to consider diverting their production into more profitable products. As profit margins decrease, unprofitable companies will be forced to close, further reducing supply. If prices are too low, these responses will tend to push prices upward toward a better equilibrium.

It is possible that innovations which make the extraction and refining process more efficient could completely disrupt this regression to the mean analysis. But either way, perhaps a better observation is that gasoline prices fluctuate regularly, even when longer trends run up or down. They are similar to food prices when drought or cold weather disrupts a harvest. It is very difficult to make financial projections – and decisions – based on today's grocery prices or fuel costs.

Even when gas prices are high, there is a persistent market for larger, high fuel consumption vehicles. But temporarily low gas prices aren't a rationale for consumers to switch to a larger vehicle – even if prices continue to drop in the short term. Better to assume the "real" price of gasoline, with fluctuations, will stay in its historical boundaries, and make your vehicle choice accordingly. Gas prices are down, but it isn't really cheap. ❖

Retirement Maximization Strategy

When the Greatest Generation of Americans retired, many migrated to the Sun Belt states for the mild winters and low taxes. Today, a small but growing number of Baby Boomers are also uprooting in retirement, but this migration is outside the United States. An August 20, 2014, *CBSMoneywatch* article reported that the Social Security Administration currently sends abroad more than 600,000 Social Security checks, double the number delivered overseas in 2002.

Retirees are moving to Asia, South and Central America and Europe, primarily for many of the same reasons their parents moved to the Sun Belt states: lower costs of living, and better weather. And, since relatively wealthy American retirees are seen as a boon to their local economies, many foreign governments offer additional incentives for those willing to spend their golden years in another country. Retirees who might consider themselves middle class in the States often find themselves on a higher socioeconomic rung overseas.

Is Expatriated Retirement for Real?

The financial savings of expatriation can be substantial. Each year, the publication *International Living* compiles a list of desirable overseas retirement destinations. In many of these locations, retirees can live quite comfortably on a $2,000 monthly income. Quoted in a September 30, 2014, article for *Money*, *International Living* editor Dan Preschler, who lives in Ecuador, says the biggest savings typically come from cheaper housing prices, lower fees for routine medical care, and less expensive food and dining costs.

These economic advantages, combined with technology, can allow overseas retirees to live well, return frequently to the US, remain connected to American financial institutions, and communicate regularly with friends and family.

Of course, living abroad is not living in the United States. Routine medical care may be cheaper, but expert medical services may be non-existent; health issues that require specialized attention can be a deterrent to living overseas in retirement. The challenge of leaving friends and family to live among strangers can be intensified by language barriers and cultural adjustments. And most expatriate retirees should have a plan – and the financial resources - for a possible return to the US. This is especially true for couples, in the event of a spouse's death.

Taxes and other financial issues can be problematic. As long as you're a U.S. citizen, you have to pay income taxes no matter where you live or your assets are held. If you hold or accumulate substantial assets in a foreign bank, you will also have to report this information to the IRS. While many US Expats continue to maintain their retirement accounts in the US, the local value of their assets may fluctuate because of movements in the exchange rate between the currencies.

Strong Dollar Opportunities

For the past year, the US dollar has been trending "strong," which means the dollar's value has risen in comparison to other national currencies. In 2014, the dollar rose 12% against a basket of prominent currencies, such as the euro, peso, yen, etc.

A strong dollar gives Americans more purchasing power abroad. Typically, this condition prompts financial experts to recommend overseas travel. But for those contemplating an expatriated retirement, the combinations of low price and a strong dollar could present some intriguing opportunities, particularly for real estate.

An example:

On January 1, 2014, it cost $1.37 to buy one euro. On January 1, 2015, the price was $1.20, a change of 14% in favor of the dollar. Thus, an apartment villa in Portugal with an asking price of 100,000€ (euros) would have cost $137,000 (dollars) in January 2014. A year later, the same villa, still priced at 100,000€, could be had for $120,000 (dollars).

Would You, Could You Live Abroad?

Maybe the possibility of living overseas in retirement is completely foreign to you. But the world is changing. For Americans, living abroad may be a new frontier for retirement.

Family obligations, personal relationships and national identities remain powerful social attachments. But innovations in communication and travel make us an increasingly connected global community. Living in Europe or South America simply isn't that far away any more. ❖

A strong dollar and a new option for retirement might prompt new questions about your finances, expose you to new possibilities, and perhaps require some recalibrating of your financial actions. If you could live better overseas, would you move?