Hill Financial & Insurance Services, Inc.
5732 E 2nd Street, Suite A
Long Beach CA 90803
Office: 562-987-2727
Fax: 562-987-1127
info@HFISinc.com

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Money Stress: Is it a Disorder Issue?

Since 2007, the American Psychological Association has produced an annual report titled *Stress in America*, a survey examining “how

stress affects Americans’ health and wellbeing.” The 2013 edition (issued February 2014) finds
ople continue to experience stress higher than what they believe to be healthy, struggle to
eve their health and lifestyle goals, and manage stress in ineffective ways.”
What stresses us out? Here are the top three reported sources:

Money	71%
Work	69%
The Economy	59%

ince the surveys began, “money” as a source of stress has topped the list every year, and
reported 30% more frequently than “personal relationships,” which placed fourth in 2013.
For many Americans these unhealthy stresses exact a physical and emotional toll.
ondents report irritability, anger, anxiety, depression, a lack of motivation or energy. They
owledge the stress impacts their personal and professional relationships, and causes them to
s

What is so Stressful about Money?

Why is “money” at the top of the stress list? The immediate response is “because we don’t have enough of it!” But in many ways, the reverse might be more accurate: We get stressed because we have to deal with ***so much of it, and so often.*** Even Americans who consider themselves less than wealthy have many decisions and transactions involving money every day, for almost everything. Because it is inextricably intertwined with almost every part of our lives, money significantly influences our sense of well-being. If we mess up with money, it messes with our contentment. And it’s not hard to mess up.

Consider the knowledge required to handle these common financial instruments:

Checkbooks	***Insurance policies***	***Auto loans***	***Property taxes***
Investment accounts	***Mortgages/Leases***	***Deeds***	***Credit Cards***
Retirement plans	***Wills and trusts***	***Income taxes***	

Besides dealing with a wide array of financial instruments and institutions, there is the frequency and/or infrequency with which these transactions occur. Some items happen so often it’s easy to lose track (the daily in-and-out activity in bank accounts); others occur so infrequently we may not be prepared for them (new tires for the car, semi-annual property taxes). And transactions can be executed with cash, checks, electronic transfers, credit cards – each with its own receipt, confirmation, or statement. Even if we understand the details, keeping track of all the pieces can be time-consuming.

The volume, complexity and variation make mistakes likely – we may miss a payment, pay too much interest, have gaps in our insurance, misallocate retirement accounts. Or, at least we think we might be doing this; the daily torrent of new financial decisions can make it hard to assess what just happened. In summary: We’re required to make new financial decisions every day - with a vague sense we might be missing something - knowing any mistakes will have a negative impact. Yep, that sounds like a surefire recipe for stress.

Stress Management or Stress Resolution?

The APA's report also provides a list of strategies Americans employ to deal with their stress. **The top five reported stress management activities:**

Listening to music	**– 48 %**
Exercising or walking	**– 43 %**
Going online	**– 42 %**
Watching TV/movies for more than 2hrs./day	**– 40 %**
Reading	**– 39 %**

Note these are actions to cope with stress, not resolve it. Listening to Sinatra or taking a 25-mile bike ride usually won't resolve a money issue; it just allows us to live with it for another day. Stress management may provide short-term relief, but it can also keep us from long-term solutions. Following the 2011 APA report, a January 2012 *USA Today* article said, "People have been under so much stress in the past few years that they've adapted to it… (and) more or less accepted it as a way of life."

Does money stress have to be a way of life? If your health is a source of stress, exercise or improved eating habits might be more productive than listening to music or watching TV movies. The same perspective could be applied to money stress: better to identify some actions that might alleviate or eliminate it. Every situation is different, but many Americans have the resources to pursue practical resolutions for many of their money stresses.

Establishing Financial Order, Regaining Your Balance (Sheets)

One starting point in reducing money stress is establishing financial order. The entirety of your financial life – your cash flows, assets and liabilities, risk management – should be organized to concisely show you where you are, and what you can do. If your personal finances were a business, you'd have an accountant, or at least a bookkeeper to make this happen. But personal accounting is usually a do-it-yourself project – meaning it's a "usually-not-done" project. It does not have to be this way.

The same technologies that make it possible for you to deposit a check by taking a picture of it with your Smartphone can collect, consolidate, update and analyze your financial life. Once established, these personal finance programs can archive copies of documents and statements, continuously update your accounts, and provide both real-time snapshots and historical context regarding your financial condition. And many financial institutions offer complimentary personal finance programs for their customers that include expert assistance with the set-up and maintenance. In the time it takes to watch two "Law and Order" reruns on cable TV, you could make substantial progress toward getting your financial house in order.

When net worth statements, monthly cash flow summaries and other balance sheet reports are at your fingertips, the uncertainty about your finances decreases and your ability to make productive financial decisions increases. The result should be tangible bottom-line improvements – and less stress about money.

Accountants characterize an off-balance-sheet item as "an asset or liability in which the company does not have a legal claim or responsibility for," and thus cannot post to a financial statement. This item may be good (a pending sale) or bad (a potential lawsuit). Even though off-balance-sheet items don't have a numeric value, knowing about them can impact an assessment of a business' condition.

Order in your financial life is an off-balance-sheet item; it doesn't have a dollar value. But its intangible benefits may be even more valuable. The 2013 *Stress in America* report led with a feature titled, "Are Teens Adopting Adults' Stress Habits?" Check out the most commonly reported sources of stress for teens:

83% - School
69% - Getting into a good college, deciding what to do after high school
65% - Financial concerns for their family

Wow. Money is almost as big an issue for teens as it is for their parents. The APA notes that the money stress for parents appears to spill over to their children. But conversely, "Young people learn a lot about healthy behaviors from watching and imitating adults, especially their parents." Getting your financial house in order is not only good for you, but also benefits your children, both now and in the future.

Wealth with tranquility is an optimal

Do not underestimate the psychological benefits of etting your financial world in order. **Wealth with anquility is an optimal combination.** Order can arpen your financial awareness and expand your ealth. It may also minimize the time you have to end on money, allowing you to focus on your family d other pursuits. If your money stress is a result of sorder, take advantage of the technology and sistance and take steps to regain your financial alance and reduce stress. ❖

Whole with Waiver of ...to Complete Disability Income

An article from the April 8, 2014, *Wall Street Journal* detailed treatment advances for people paralyzed by spinal-cord injuries. Conventional medical wisdom holds that improvement or restoration of nervous function usually ends by two years after the initial injury. But these new therapies allowed two patients with complete paraplegia to wiggle their toes, flex their legs, and stand independently for short periods. This is a significant and encouraging breakthrough.

Accompanying the text were several thought-provoking statistics about spinal-cord injuries:

- Automobile accidents are the single greatest cause of spinal-cord injuries in the U.S., responsible for 36.5 % of the cases.
- An astounding 81 % of spinal-cord injuries are suffered by men.
- The lifetime cost of treating a person diagnosed with paraplegia at 25: $2.26 million.

Unlike some debilitating conditions that may shortly end in death, a spinal-cord injury is the type of disability that may last a long time. A cost of $2,260,000 for disability treatment is a daunting number. The cumulative costs of a long-term disability present a severe challenge to one's ability to maintain one's previous standard of living – even if a person has comprehensive medical coverage ***and*** disability income insurance that includes lifetime benefits and cost-of-living increases. Here's why:

The purpose of disability insurance is to protect one's income-earning potential, but offering too high a benefit relative to current income creates a moral hazard; individuals might find it more profitable to qualify for disability than to continue working. Consequently, most disability insurance benefits are limited to a percentage of gross income, usually between 60 and 70 percent. also, increased medical and rehab costs will result in higher living costs. Thus, while disability insurance can go a long way toward maintaining financial stability, a long-term disability can derail lifelong financial objectives (like saving for retirement). However…

Waiver of Premium Provides Long-Term Accumulation

A **waiver of premium rider,** for a relatively small additional premium, on a term life insurance policy suspends the obligation to pay premiums once the insured experiences an extended period of disability (typically 6 months or beyond), yet requires the insurance company to keep the policy in force. The life insurance remains in force in accordance with the conditions of the policy. For a 15-year term insurance policy, the premiums are waived until the end of the 15-year period. For a whole life policy, the waiver can pay the premiums for the insured's entire lifetime – and this includes the portion of premium that would be allocated to cash values.

To illustrate: A 35-year-old male non-smoker has a whole life policy from a highly-rated mutual insurance company with an annual premium of $10,000. If he were to suffer a long-term disability at age 40, the insurance company will continue to credit $10,000 annually in premium on his behalf. At age 65, the insurance company would have made $250,000 in premium payments, and a current illustration shows cash values of almost $600,000. (This amount is based on a dividend that is not guaranteed. Please request a full whole life insurance illustration from your life insurance representative.) The premiums continue to be paid by the company after age 65 for the life of the insured.

Wait, there's more…

Some insurance companies permit waiver of premium to be combined with conversion agreements on term policies. A conversion agreement gives the insured the option of exchanging the existing term policy for a policy with cash values, without requiring additional underwriting. During the qualifying period of disability, the insured could convert from term to whole life (or a similar permanent policy), and accumulate cash values – with no premium payments from the insured.

Another way to maximize the waiver of premium benefits may be through additional purchase- or guaranteed-increase option riders, for a relatively small additional premium. Once a policy is established, these riders give the insured options to obtain more coverage at specified times (such as every three years), or if "life change" events occur (marriage, birth or adoption of a child, a home purchase, etc.).

These riders make it possible to secure the option to purchase significant amounts of permanent life insurance protection (and waiver of premium features) at a later date, even if current finances will only allow for either term insurance or lesser amounts of permanent coverage.

Since the language of the waiver of premium agreements varies by policy and the issuing company, guidance from a competent life insurance professional is paramount. Extensive riders, such as those that permit conversion from term to whole life while the insured is disabled, cost more than waivers to protect term insurance death benefits. However, unlike disability income insurance, the accumulation benefits granted by life insurance waivers of premium are not tied to earnings. A disability accumulation option with whole life insurance may be as large as one's budget and human life value will allow.

The next time you review your life insurance program, ask about the waiver of premium features in your policies. Waiver of premium riders may be the final section in the moat of protection around your greatest asset – your ability to earn an income. ❖

The Gold Riddle

Since about 2010, renowned investment manager Warren Buffett has been telling a “Pile A - Pile B” story to explain his opinion on gold. Because market conditions affect the numbers, each retelling of this anecdote has featured slightly different values, but the basics are the same. Here’s a synthesized version, drawn from columns published over the past four years.

Pile A and Pile B

If all of the gold ever mined was collected and melded into one block, it would form a cube of about 68 feet per side. (Picture a square six-story building fitting comfortably within a baseball infield.) At approximately $1,300/ounce (the spot price near the end of April 2014), this cube would have a value of more than $7 trillion. Let’s call this huge solid gold cube “Pile A.”

In contrast, let’s take a look at what else $7 trillion might buy. Here is Buffett’s recommendation for “Pile B”:

“For … purchases, we would have about $1 trillion left over for walking-around money (no sense feeling strapped after this buying binge).”

Buffett asks: “Which would you take? Which pile is going to produce more value?”

Buffett’s answer: “Call me crazy, but I'll take the farmland and the Exxon Mobils.” We know Buffett’s not crazy, but can you explain why?

Gold Isn’t “Alive”

The gold cube just sits there. It doesn’t grow, it’s not “alive.” If its value appreciates, it means the gold is worth more per ounce in dollars, not that you have more of it. And the only way to realize value from the cube of gold is to shave some of it off and exchange it for something else (like food, shelter or entertainment). Every time you do that, your cube gets a little bit smaller.

Other assets can produce value by adding **human capital** – sweat, knowledge, creativity. A farmer works the land. Exxon applies the intelligence of engineers and managers to extract and deliver fuel. Buffett understands human capital is the catalyst for all wealth creation; this understanding shapes his investment decisions. The 68-foot gold cube isn’t very conducive to combining with human action. As he says, “you can fondle it, but it won’t respond.”

This discussion is a bit esoteric, but it provides insight regarding differences in wealth creation and wealth preservation, and the role of human capital.

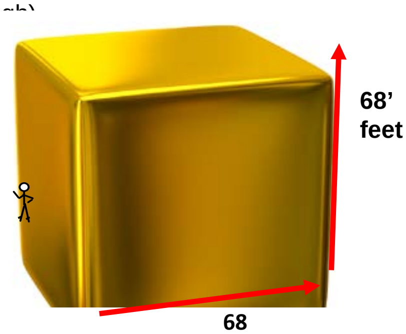
Because our actions and knowledge are the catalysts for asset creation, any time we stop working at it, our wealth stagnates or diminishes – we start shaving off bits of our assets to live.

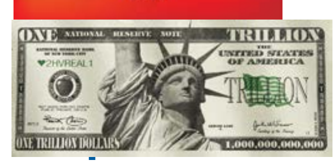
Of course, we won’t live forever and our capacity to work may decline with age, so we can’t rely solely on human capital.

Successful wealth management requires a *balance*, and an understanding of which assets are better suited to growth or preservation.

Life insurance, which transforms

PILE “A”	**PILE “B”**
A 68-foot Cube of Solid Gold (6 stories high)	**All U.S. Cropland + 16 “Exxon Mobils”**





On the Other Hand, Gold is Immortal

Buffet's ongoing argument against gold has prompted rebuttals. In a May 2013 online commentary, Julian Phillips notes human capital has its limits as well.

"Mr. Buffett's ability to make money is dependent on the continuation of a growing U.S. economy. More importantly it depends on his mortal skills as an investor. Gold is immortal…Gold will survive if there is no U.S. economy."

This is an important distinction for Phillips. Because it has a long history as a storehouse of wealth, he concludes "Gold is not bought by people to make money, but by people who have money."

When Phillips says gold is immortal, he means you can't destroy it. If you melted down the 68-foot cube, the pool of gold would have the same value. If you pulverized it into dust, a miner could sift and separate to reclaim it. However, if you incinerate a $100 bill, what are the ashes worth? And when Mr. Buffett dies, can his financial value as an investor be resurrected? No. These values are gone. ❖

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