

Financial *notes*

INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

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Dear Scott,

Welcome to the October edition of my monthly financial newsletter. This month's issue is all about insurance. Insurance is an important part of financial planning because it helps us mitigate the risk of a financially devastating event, such as a car wreck, house fire, major illness, or even death. I encourage clients to educate themselves so they know what they need in their insurance coverage as well as what they do not need.

Save on Insurance

The third in a four-part series to help you save more

Today insurance is a necessity; auto, home, health, and life insurance are nearly universal. I find most families spend thousands of dollars a year on insurance and yet they rarely evaluate their insurance costs even though it is one of their biggest expenses. In the previous two issues, we discussed why it pays to be frugal when buying a home or auto, but most people don't want to make changes in those areas. Evaluating your insurance costs can save you money without any change to your standard of living. Here are five tips to help you save more:



1) Comparison shop. When was the last time you check your rates against the competition? Insurers have very different prices - much more than you would think considering the number of companies in the market.

2) Ask about discounts. Many insurance companies will offer a discount for combining home and auto coverage. I did this last year and saved over \$500 when I switched companies.

3) Increase your deductible. Insurance companies don't want the hassle and expense of small claims. Look at how long it would take to save the cost of the deductible. For example, if increasing your deductible from \$500 to \$2000 saves you \$300 a year, it pays for a

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The best compliment you can give me is the referral of a friend or family member!

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THIS MONTH, SCOTT IS...

This month, our orchestra season gets underway with the first concert, featuring Beethoven's Fifth symphony on the first half, and 7-time Grammy winners 5th Dimension on the second half. We perform in Arlington, Garland, and Las Colinas once a month from October through May.

claim every five years. How often have you had a claim on your home owners policy? For many people, it's never.

4) Take a Defensive Driving class. If you take a class to get out of a ticket, you can also submit the course certificate for a 10% discount on your auto policy. If married, both spouses can do this.

5) Don't underinsure to save money. I recently increased a client's life insurance from \$250k to \$500k for an extra \$6.50 a month. It's worth it to be fully covered.

6) Call me. As a broker, I run quotes from multiple life or health companies. If I can't help you, I know who can.

www.lascolinassymphony.org

www.garlandsymphony.org



Section 1035 Exchange

A 1035 exchange is a tax-free exchange of an existing annuity or life insurance contract for a new one. Why would you want to do this? A replacement product may offer higher interest rates, improved benefits or features, or access to more appropriate investments for your retirement needs and estate



planning goals. For individuals who have built up their cash-value life insurance, a 1035 to an annuity could offer guaranteed withdrawal benefits to provide lifetime income during retirement, or if the person will not need to access the cash value, a 1035 to a guaranteed UL may substantially increase the death benefit to their heirs.

A 1035 exchange into another insurance product may result in new or increased surrender charges or higher charges, such as annual fees, associated with the new product. The features and benefits of the new product may have higher costs associated with them and may not be necessary.

Why Term Life?

I am a big fan of term life insurance. It can be amazingly inexpensive for a significant death benefit. As a financial planner, I view the purpose of life insurance as a transfer of the risk of the *loss of income* from unexpected death. While we can never place a dollar value on a human life, we can determine the present value of future cash flows for a person's expected income. My belief is that if others are depending on your paycheck - your spouse, kids, parents, or others - you should consider term insurance. If you are single or retired, you may not need life insurance, because others do not have a need to replace your income.

Permanent life insurance may be useful for families with estate tax concerns, but for most working people and young families, I

recommend you buy term and maximize your investments in tax-advantaged accounts such as 401k and IRAs. Those investments have had better growth rates and much lower expenses than using a life insurance policy as a savings account. For a young person, choosing a term policy over a permanent policy and saving the difference for 30 years could enable you to be self-insured before you reach retirement age.

The cost of the insurance depends on your age, health, and length of term. Here are current best rates for non-smokers for a \$1,000,000, 30-year level term policy.

Male, age 30, best: \$62/month

Male, age 30, preferred: \$82

Female, age 30, best: \$49

Female, age 30, preferred \$65

How much insurance do you need? Will you be rated standard, preferred, or best? It depends on a lot of factors. Call me and we can evaluate your needs and options.

Quotes are current as of October 17, 2007 and are subject to change.

*Always go to other people's funerals,
otherwise they won't come to yours.*

YOGI BERRA

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

Scott Stratton, CFP(R)

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