

# The COMPASS Chronicle

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"Morningstar's Best Client Newsletter" in 2012

## So, You're Ready for Retirement... Or Are You?

In the past, retirement planning used to involve two planning stages: the accumulation of assets, and the distribution of assets. Nowadays, there may be three periods to consider: accumulation, transition, and distribution. "Transition" can be defined as the period between full employment and full retirement when a person is working on a reduced or part-time basis.

What are some reasons to consider working a little longer? Working gives many people a purpose and a sense of self-worth—two benefits that can be more valuable than money in some cases. Working just a few extra years also prolongs the start of the distribution period and enables you to accumulate more savings. This becomes especially important when you consider that life expectancies are rising and you may need to fund a longer retirement than your grandparents, or even parents, did. Continuing to work in the transition years can also provide one additional advantage—it might enable you to receive

medical benefits of higher quality than what you would receive as a retiree from your job or from Medicare. This strategy can go a long way in reducing the impact on your portfolio of unforeseen medical bills in early or mid retirement.

**Caveat:** While we have explored the positives of continuing to work in the transition years, you also need to consider the negatives. One negative is the impact on Social Security benefits. If you decide to start receiving Social Security benefits at age 62, you will be penalized with a reduction in those benefits for any income you receive from working until you reach full retirement age. In addition, Social Security benefits are taxed if you make more than a certain amount each year from earned and investment sources. It may be best to plan this out with your financial advisor to make sure you maximize your benefits.



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### More about COMPASS Wealth Management, LLC

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

For details on the selection criteria used to determine the recipients of the FIVE STAR Wealth Manager award, please visit our web site.

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# Should You Purchase Rental Car Insurance?

By Louis E. Conrad II, CFA

The summer is associated with vacations and often vacations involve the use of rental cars. When you rent a car, should you purchase the insurance offered by the rental car company? Approximately one-third of car renters do, but they may be needlessly purchasing duplicative coverage, which can cost up to \$40 per day. Many who rent cars already have sufficient coverage provided by their personal automobile insurance or through the credit card they use to pay for the rental car.

## Personal Auto Policy

Vehicles registered in most states are required to maintain a minimum level of auto insurance coverage, though most people opt for higher amounts of coverage to protect themselves financially in case of an accident. This same coverage normally carries over to your use of a rental car, as does your homeowner's (or renter's), liability, and health insurance policies.

Prior to your trip, contact your insurance agent to confirm your specific coverage under these policies. While your auto policy can provide your collision and comprehensive coverage, your homeowner's policy can cover your personal property in the car (your auto policy may also provide this coverage). Further, your auto policy and umbrella coverage can meet your liability needs and your health care insurance can cover medical costs.

Your personal auto policy's deductible will also apply to your rental car. Be aware that your policy may not cover exotic car rentals, moving van or truck rentals, international travel, long-term rentals (usually in excess of 30 days), and car rentals during business trips. Many personal auto policies will also not cover "loss of use," or the fee that a rental car company can charge you for the loss of rental fees while the rental car is being repaired as a result of an accident. In addition, many personal auto policies will not cover the diminution-in-value assessed by the rental car company for the loss in value of their damaged car.

Also remember that if you plan to rely on your personal automobile policy when you rent a car and you have an accident that you report to your insurance

company, you may face an increase in your annual auto insurance premium.

## Credit Card Coverage

You should also contact the issuing bank of the credit card you plan to use to pay for your rental car in order to understand the coverage provided. Ask for the coverage details in writing, which vary by credit card issuer. Most credit cards offer free basic rental car coverage, including coverage for a collision, theft of the rental car, and towing services. Some credit cards also cover "loss of use" charges imposed by rental car companies and most will cover the deductible imposed by your personal auto policy. Many will also cover the administrative processing fees that are assessed by rental car companies when an accident occurs. These can amount to a few hundred dollars.

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## Should You Purchase Rental Car Insurance? continued

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However, credit card coverage usually does not include (1) supplemental liability and personal effects; (2) exotic vehicles, passenger vans, and campers; (3) international rentals; and (4) long-term rentals of greater than 30 days. The coverage may also not carry over to the cardholder's spouse if the spouse was driving at the time of the accident. Finally, to gain the coverage provided by your credit card, you must decline the coverage offered by the rental car company; otherwise, the credit card coverage is invalid.

### Rental Car Company Coverage

Providing coverage to renters is an important profit center for rental car companies. Selecting all of the available coverage options can account for a large portion of your total rental cost. Most states require rental car companies to automatically provide minimum liability coverage at no cost to the renter. However, there are generally four optional coverages available at the rental car counter:

1. Loss damage waiver (LDW) or collision damage waiver (CDW) usually costs \$9 - \$19 per day and shifts the liability for collision damage from the renter to the rental car company. However, this coverage may be void if the accident was caused because you were speeding, intoxicated, or were driving recklessly. It covers "loss of use," but the other aspects of this coverage may be duplicative if you maintain sufficient levels of collision coverage on your personal auto policy.
2. Supplemental liability protection often runs \$7 - 14 per day, though you already have some liability coverage under your personal auto policy, supplemented by any umbrella liability policy you may maintain, which is far more cost effective than the coverage offered by the rental car company.
3. Personal accident insurance provides medical coverage for the driver and any passengers of the rental car and normally costs \$1 - \$5 per day. However, your existing personal automobile and health care insurance policies may provide you with adequate coverage.

4. Personal effects coverage, which costs \$1 - \$4 per day, reimburses you for the theft of items in the vehicle, though your personal automobile policy and your homeowner's policy, which may have off-premises coverage, make the coverage offered by the rental car company unnecessary.

Yet, the coverage offered by rental car companies may be potentially helpful to those who do not own a vehicle and thus do not have a personal automobile policy. However, in such a case, you may want to contact your insurance company and inquire about a non-owner liability policy. These policies generally cost \$200 - \$500 per year, but may be cost effective if you frequently rent a car for non-business purposes.

The key to ensuring you will have adequate insurance coverage on your next rental car is to plan ahead by contacting your automobile insurance carrier and credit card company. Determine your coverage in advance of your trip so that you can make an informed decision the next time you step up to the rental car counter. Safe travels!

## Expenses on the Rise

- ▶ The expenses a mutual fund charges its shareholders have a material impact on the investment returns received. All else being equal, COMPASS Wealth Management selects mutual funds that charge below-average expenses.
- ▶ For clients with larger balances, we select the institutional share class of mutual funds, which generally charge 0.25% - 0.40% less in annual expenses, saving our clients money and enhancing their returns.

When choosing an investment, most investors look for attractive performance. What they often fail to investigate, however, is how much this performance is going to cost them in the long run. For example, for mutual funds, the expense ratio is the percentage of fund assets paid for operating expenses and management fees, including 12b-1 fees, administrative fees, and all other asset-based costs incurred by the fund. This cost is passed over to you, the investor.

Expense ratios vary widely among funds, and they have generally been increasing over time. Advocates of funds with higher fees argue that they are justifiable by the fund managers' expertise that results in higher returns. However, this may not always be the case. Careful research is needed for each fund in order to determine the exact impact of fees on returns.



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