



RISK MANAGEMENT & INSURANCE

It is impossible to avoid any risk in life. But prudent use of insurance can help protect you against major losses. Please remember as you review these guidelines that we do not sell insurance products. Our guidance is based solely upon your need. When purchasing insurance, be sure to work with a good agent – one who has your best interest at heart. We can provide recommendations upon request.

LIFE INSURANCE

Life insurance is not meant to provide a windfall. It is meant to cover specific items though those items differ from family to family. Some examples: replacement of income, pay off debts and mortgages, education funding, and final expenses. In most families the need for life insurance decreases with age as children grow up and retirement assets grow. Therefore, in many cases, term life insurance through age 65 or 70 may be sufficient. For those who purchase life insurance for payment of estate taxes, permanent life insurance is often the best choice. **NOTE:** For policies purchased privately (as opposed to group policies) it is often better to have your spouse as both the policy owner and the beneficiary. This prevents the proceeds of the policy from being included in your estate (and possibly becoming taxable for estate and gift tax).

Types of Coverage

- **Term Life** – This type of life insurance provides greater coverage for minimal cost. This makes it especially attractive to younger families who may not be able to afford the same death benefit with permanent insurance. We suggest that you obtain an annual renewable, non-cancelable policy and that you choose a policy term that is consistent with your need (10, 20, or 30 year). Although a multiple year term policy may be more expensive initially than one that renews annually, the savings in the latter years of the policy should more than offset the increased initial premiums. And, if you select the appropriate term, you won't have to worry that health concerns in the future will render you uninsurable.
- **Permanent Life** – There are a variety of permanent life insurance policies: whole life, variable life (greater flexibility in premiums and coverage), and universal life (the ability to direct investments within your policy). In these policies, you build up a cash value over time. You can borrow (with interest) against your policy (this reduces the death benefit) or you can convert it into an annuity. In general we suggest that clients segregate their insurance and investments by “buying term and investing the rest.”

However, permanent life insurance can be particularly useful in planning for estate taxes.

Many people can cover much of their life insurance needs through group term life offered by their employer. However, in some cases, sufficient coverage is not available and supplemental insurance should be purchased privately. In either case, it is always advisable (if you are insurable) to compare your group rates with a private policy. The private policy will have the additional benefit of being portable regardless of your employment.

HEALTH INSURANCE

Health insurance is an absolute must. Even clients who are young and in good health must realize that an event like an automobile accident could cause them to incur significant medical expenses in excess of coverage offered by medical riders on automobile policies.

Types of Coverage

- **Group Medical** – Employers provide this coverage. Typically, you do not have to undergo underwriting (approval from an insurer based on your particular medical record). This is a major advantage for those with pre-existing conditions. Employers often subsidize the cost of this insurance for employees and also provide dependent coverage.
- **Private Medical Insurance** – Those people who are self-employed or retired (and not age 65) must provide their own medical insurance. Typically, the cost of such coverage is higher than group coverage and individuals will be required to undergo underwriting before they are approved.
- **Medicare** – Regardless of when you decide to start your social security payments, you should register for Medicare at age 65. However, remember that Medicare will not cover all of your medical costs. We suggest that those on Medicare also purchase supplemental insurance.
NOTE: Medicare does not cover you when you are out of the country.

Caution: Never terminate medical coverage until you are **certain** replacement coverage is in force.

DISABILITY INSURANCE

It is more likely that you will become disabled during your working years than you will die pre-maturely. Yet many people go without disability insurance. How would you replace your income in the event you were unable to work for several years? If you don't have an answer (and one that won't jeopardize your retirement) you need disability insurance. Several items to note:

- **Short-term and Long-term** – Short-term disability will likely start paying benefits within one or two weeks of your disability. However, it will continue for only a short period of time, typically 90 to 180 days. On the other hand, long-term policies will have a longer elimination period (time

before benefits begin to be paid) but payments will continue for a longer period of time (2 years, 5 years, until age 65). Some people may choose to self-insure for short-term disability, secure in the knowledge that a small setback will not compromise their financial future. However, during their working years when most people are accumulating assets, a long illness or injury could seriously impact the family finances. Therefore, we recommend long-term disability insurance for most of our clients.

- **Group Policies and Individual Policies** -- Group policies provided by employers often offer the best coverage for the most reasonable price. In most cases, employees do not have to undergo underwriting based on their individual health. Many times, premiums may be paid with before tax dollars. However, in this instance, benefits (when paid) will be taxable to the recipient. Private policies are the only recourse of the self-employed. Typically, they are expensive and individuals must undergo underwriting. Premiums are paid with after tax dollars but benefits (when paid) will not be taxable.
- **Level of Coverage** – Disability policies do not provide 100% replacement of income. Rather they provide some lower amount and often, in the case of group insurance, only a percentage of base salary (not including bonuses or commissions). As you determine the level of coverage you need, you must remember this reduced benefit and consider whether or not the proceeds will be taxable (which will further reduce the net amount available to cover family expenses).

LONG TERM CARE

For many people of moderate means, a long-term stay in a healthcare facility or the need for extended in home care can devastate their finances. This is especially true for retirees though can be true for young families as well (as, in addition to increased healthcare costs if there is also a loss of earned income). We often hear from our older clients that one of their biggest fears is “being a burden on their children.” We are also aware of cases where one spouse has become seriously depleted from taking care of the other spouse. Therefore, we often suggest for a variety of reasons that many clients consider purchasing long-term care insurance. This insurance can be structured in a variety of ways. For more information, please request our “Long Term Care – Questions To Ask” or call us.

PROPERTY AND CASUALTY INSURANCE

Clients are most familiar with this type of insurance, which includes home and automobile insurance. Several things to remember:

Home Insurance

- **Adequate Replacement Coverage** -- Be sure to check with your agent to make sure you have adequate replacement coverage on your residence. Failure to maintain adequate coverage may reduce the amount you receive in the event of a claim.

- **Separately Stated Items** -- Typical homeowner's policies may not fully cover any art, collectibles, guns, jewelry, computers and stereo equipment, etc. These items should be separately scheduled. The cost is usually very reasonable. Be sure to check with your agent to determine if you need this kind of rider on your policy.
- **Loss of Use** -- Does your policy provide benefits to cover living expenses if you are unable to live in your home? Be sure to check with your agent.

Automobile Insurance

- **New Vehicles** -- Most policies do not require that you add new vehicles within 30 days of purchase. **Be sure** you verify this with your carrier before you drive a new car.
- **Adult Child at Home** -- If your adult child is living with you and is driving one of your cars, consult with your agent to see if he/she should be a covered person on your policy.
- **Rental Cars** -- Your automobile policy may provide coverage for you when you are renting a car. Be sure to check with them beforehand to determine if you will need to purchase the high-cost insurance offered by the rental agency. Different rules may apply to foreign travel so if you are planning on renting a car out-of-country, verify your coverage with your agent.

General Information on Property and Casualty Insurance

- **Claims** -- Your insurer is acutely aware of how many claims you make. Research indicates that the number of claims may be more significant when carriers decide whom to cancel than the size of the claims. Therefore, you may choose to limit your claims by paying small losses out-of-pocket.
- **Higher Deductibles** -- You can reduce your premiums by increasing your deductibles. When making this decision, do not be shortsighted. If you do increase your deductible and have a loss, would you be unduly burdened by the increased out-of-pocket expense required? On the other hand, if you have decided, as indicated above, that you will pay small losses personally, higher deductibles may be just the thing for you.
- **Shop for the Best Coverage for the Price** -- Underwriting differs from company to company. Therefore, there is often a big difference for the price you might pay for essentially the same coverage. We suggest that you "shop" your property and casualty insurance at least once every 3 years. If you haven't had any recent losses or traffic infractions, you may be able to significantly reduce your premiums by changing carriers.
NOTE: Be sure to check the financial health of your insurer. Low premiums are of no use if the carrier won't be able to pay future claims.
- **A Good Agent** -- Although we encouraged you to shop your insurance, a relationship with a good agent is highly desirable. If you don't like your agent, ask friends (or us) for a referral. Don't let a few dollars difference in premium cause you to discontinue a good relationship.

LIABILITY UMBRELLA INSURANCE

This type of insurance provides an “umbrella” of liability coverage over and above the limits of your existing home and auto insurance. Policies can be written for extended amounts (\$1,000,000 or \$2,000,000 are typical) and often require that you maintain increased limits of liability coverage on your underlying home and automobile policies. The charge for such insurance is very low compared to the protection provided (typical range for \$1,000,000 coverage is \$250-\$400 per year). We highly recommend this coverage to all clients. In automobile accidents, it may be the case that the extent of your liability will exceed the limits of your automobile policy (even with increased limits of liability). And you don't have to be negligent for this to happen (a wet, oily road and an darkly clad pedestrian). Should this happen to you and you have an umbrella policy in place, it will pay liability claims up to the limits of the policy over and above what is paid by your automobile policy. **NOTE:** Umbrella policies only cover liability and not your personal injuries and losses. That is why you must maintain good health insurance and consider disability and long-term care insurance.

BUSINESS INSURANCE

If you are self-employed, be sure to consult with an agent on the types of coverage you may require. If you provide professional services, it is likely you will need Errors and Omissions insurance. Most of you will need liability insurance. If you have employees, you will need worker's compensation insurance. If you have business equipment, you will need specific coverage for that. Finally, you may require a special business package that will cover loss of work papers and downtime. **NOTE:** If you work from your home, you may be able to purchase a rider to your home-owners policy that will cover many (but not all) of these items.

OTHER RISK MANAGEMENT TOOLS

HOME INVENTORY

In the event of a loss, having a home inventory is invaluable. Indeed, it may be almost impossible in the event of a catastrophic loss for you to remember all the articles you own. One of the easiest ways to take a home inventory is with a hand held camera. All-important items should be taken out of storage and displayed. Then go from room to room with the camera making sure your dialogue describes the items you are filming. It may even be useful to state when you purchased something and what was paid (or for appreciating assets, the valuation at appraisal). If you prefer, you can also do this with a regular camera. Finally, we suggest that you keep all receipts on big-ticket items in a safe place off site. This is the best proof of how much something cost. This may take some time and we hope you never have to use it. But in the event you do, you'll be so glad you have it.

COMPUTER INFORMATION LOSS

Are you one of the multitudes of Americans who now regularly keeps many of your records on your computer? If so, do you back up regularly? If you do back up, do you keep a copy off-site? Do you have virus protection and/or a firewall (if you have a constant high-speed connection)? At best a computer failure (or theft) is just an inconvenience. At worst, you may lose valuable financial and personal information. Be sure and protect the safety of your information. We can provide procedures and recommendations to computer support personnel.